

1 The Honorable Paul B. Snyder
2 Chapter 11
3 Location: Location: Tacoma, Courtroom H
4 (Vancouver case authorized to be heard in Tacoma
5 as a Special Set)
6 Hearing Date: June 24, 2010
7 Hearing Time: 10:00 a.m.
8 Response Date: June 17, 2010 at 5:00 p.m. PST
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14 UNITED STATES BANKRUPTCY COURT
15 WESTERN DISTRICT OF WASHINGTON
16 AT TACOMA

17
18 In re

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20 PACIFIC LIFESTYLE HOMES, INC.,

21
22 Debtor.
23

NO. 08-45328-PBS

**DISCLOSURE STATEMENT FOR
DEBTOR'S FIRST AMENDED PLAN OF
REORGANIZATION (Dated May 24, 2010)**

24
25 **THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE**
26 **BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION.**
27 **THE BANKRUPTCY COURT WILL DETERMINE WHETHER THIS**
28 **DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION AT**
29 **A HEARING TO CONSIDER APPROVAL OF A DISCLOSURE**
30 **STATEMENT. THE TRANSMISSION OF THIS PROPOSED DISCLOSURE**
31 **STATEMENT IS NOT A SOLICITATION FOR ACCEPTANCE OR**
32 **REJECTION OF DEBTOR'S PROPOSED PLAN**
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1 Pacific Lifestyle Homes, Inc., a Washington corporation (the “Debtor”, “PLHI”)
2 submits this Disclosure Statement in connection with its First Amended Plan of
3 Reorganization dated May 24, 2010 (the “Plan”). The purpose of this Disclosure Statement
4 is to set forth information that (i) summarizes the Plan and alternatives to the Plan, (ii)
5 informs creditors and Interest holders of the treatment to be afforded their claims against and
6 equity interests in Debtor under the Plan, (iii) assists creditors entitled to vote in making
7 informed decisions as to whether they should vote to accept or reject the Plan, and (iv)
8 assists the Court in determining whether the Plan complies with the provisions of Chapter 11
9 of the Bankruptcy Code and should be confirmed. The Plan describes how all claims
10 against and equity interests in Debtor will be resolved, and provides the means by which
11 PLHI will be reorganized under the Bankruptcy Code.
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22 I. EXECUTIVE SUMMARY

23 A. Introduction.

24 On October 16, 2008 (the “Petition Date”), PLHI filed a voluntary petition for relief
25 under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the
26 Western District of Washington (the “Bankruptcy Court” or the “Court”). Since then, PLHI
27 has managed its properties and affairs as debtor in possession. On May 24, 2010, PLHI filed
28 its Plan of Reorganization with the Bankruptcy Court. On November 25, 2009, PLHI filed
29 the First Amended and Restated Plan of Reorganization. This Disclosure Statement
30 describes certain aspects of the Plan, PLHI’s business operations, significant events that
31 occurred in the Bankruptcy Case, and related matters. This Executive Summary is intended
32 solely as a summary of the distribution provisions of the Plan and certain matters relating to
33 the plan confirmation process. For a more complete understanding of the Plan, you should
34 read this Disclosure Statement, the Plan, and the exhibits thereto in their entirety.
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1 **B. Definitions and Plan Supremacy.**

2 All terms defined in the Plan will have the same meanings when used in this
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4 Disclosure Statement. Terms defined in this Disclosure Statement which are also defined in
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6 the Plan are solely for convenience and PLHI does not intend to change the definitions of
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8 those terms in the Plan. Furthermore, in the event of any inconsistency between the Plan
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10 and this Disclosure Statement, the Plan will control. The exhibits attached to this Disclosure
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12 Statement are incorporated into and are a part of this Disclosure Statement.
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15 **C. Plan Materials.**

16 PLHI is mailing the following items to those creditors entitled to vote and certain
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18 other parties, either paper copies or a CD-ROM containing the following:
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- 21 1. A copy of the “Order (I) Approving Disclosure Statement;
22 (II) Fixing The Record Date; (III) Approving the Notice
23 and Objection Procedures in Respect of Confirmation of
24 the Plan of Reorganization; (IV) Approving Solicitation
25 Packages and Procedures for Distribution Thereof; and (V)
26 Approving the Form of Ballot and Establishing Procedures
27 for Voting on the Plan of Reorganization,” as entered by
28 the Bankruptcy Court on June __, 2010 (the “Disclosure
29 Statement Order”);
- 30 2. The Notice (I) of Approval of Disclosure Statement, (II)
31 Establishment of Record Date, (III) Hearing on
32 Confirmation of the Plan and Procedures for Objection to
33 Confirmation of the Plan, and (IV) Procedures and
34 Deadline for Voting on the Plan;
- 35 3. This Disclosure Statement as approved by the Court;
- 36 4. The Plan;
- 37 5. A ballot;
- 38 6. A pre-addressed return envelope; and
- 39 7. A letter in support of the Plan from the Committee.
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1 Pursuant to the terms of the Plan, certain Classes of Claims are entitled to vote.
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3 Enclosed with this Disclosure Statement are a ballot and a pre-addressed envelope for return
4 of the ballot. If you did not receive a ballot or if your ballot is lost or damaged, please
5 contact Ann Sandvig at Perkins Coie LLP, 1120 N.W. Couch Street, 10th Floor, Portland,
6 OR 97209, by telephone at (503) 727-2000, by fax at (503) 727-2222, or by email at
7 asandvig@perkinscoie.com. PLHI and the Committee believe that confirmation of the Plan
8 is in the best interests of PLHI and its creditors, and that creditors should vote to approve the
9 Plan. You may vote on the Plan by returning the enclosed ballot to the address shown below
10 prior to the Voting Deadline, which is **5:00 p.m. local time in Portland, Oregon on July**
11 **27, 2010. Only Ballots received by the Voting Deadline can be counted for purposes of**
12 **Plan confirmation.**
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23 **D. The Disclosure Statement Approval**

24 The Bankruptcy Court will consider approval of this Disclosure Statement in
25 accordance with section 1125(f) of the Bankruptcy Code and Bankruptcy Rule 3017 as
26 containing "adequate information" to enable a hypothetical, reasonable investor typical of
27 holders of Claims against PLHI to make an informed judgment as to whether to accept or
28 reject the Plan at the Confirmation Hearing. All objections to the approval of this
29 Disclosure Statement should be filed on or before **5:00 p.m. on June 17, 2010**. Approval of
30 this Disclosure Statement will not constitute a determination by the Bankruptcy Court as to
31 the fairness or merits of the Plan.
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41 **E. Voting Procedure**

42 When deciding whether to vote for or against the Plan, creditors should carefully
43 examine the Plan itself in addition to this Disclosure Statement. The Plan will constitute the
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1 legally binding description of the rights held by the respective parties if the creditors
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3 approve the Plan and it is subsequently confirmed by the Bankruptcy Court.
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5 To vote for or against the Plan, creditors entitled to vote must mark the enclosed
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7 ballot as directed and mail it in the enclosed envelope to Debtor's counsel as follows:
8

9 Perkins Coie LLP
10 Attention: Ann Sandvig
11 1120 N.W. Couch Street, 10th Floor
12 Portland, OR 97209
13 Fax: 503-727-2222
14

15 **In order to be counted, ballots must be signed and received at the above address**
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17 **by 5:00 p.m. Portland local time on July 27, 2010. Ballots that are not signed will not**
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19 **be counted for purposes of determining whether the Plan has been accepted. For more**
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21 **information on the voting and tabulation procedures, please refer to the Disclosure**
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23 **Statement Order.**
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25 **F. Confirmation of Plan**
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27 The Bankruptcy Court may confirm the Plan if it is approved by creditors holding
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29 more than two-thirds in amount and one-half in number of the Claims voted in each
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31 impaired Class of Claims under the Plan.
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33 **Objections, if any, to confirmation of the Plan must be filed with the**
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35 **Bankruptcy Court and a copy served on counsel to Debtor and counsel to Committee**
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37 **such that the objection is received on or before 5:00 p.m. on June 17, 2010. A hearing**
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39 **to consider confirmation of the Plan will be held in the United States Bankruptcy**
40
41 **Court for the Western District of Washington, Federal Building, 500 W. 12th, Second**
42
43 **Floor, Vancouver, Washington 98660, on August 3, 2010 at 10:00 a.m. The**
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45 confirmation hearing may be adjourned from time to time without further notice except for
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1 the announcement of the adjourned date and time at the hearing on confirmation, or at any
2 adjournment thereof.
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4 5 **II. DISCLAIMERS**

6 THIS DISCLOSURE STATEMENT IS NOT THE PLAN. THIS DISCLOSURE
7 STATEMENT, TOGETHER WITH THE PLAN WHICH ACCOMPANIES THIS
8 DISCLOSURE STATEMENT, SHOULD BE READ COMPLETELY. FOR THE
9 CONVENIENCE OF CREDITORS, THE PLAN IS SUMMARIZED IN THIS
10 DISCLOSURE STATEMENT, BUT ALL SUMMARIES AND OTHER STATEMENTS
11 REGARDING THE PLAN ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN
12 ITSELF, WHICH IS CONTROLLING IN THE EVENT OF ANY INCONSISTENCY. NO
13 REPRESENTATIONS OR ASSURANCES CONCERNING DEBTOR, INCLUDING,
14 WITHOUT LIMITATION, ITS OPERATIONS, THE VALUE OF ITS ASSETS, OR THE
15 FUTURE OPERATIONS OF THE REORGANIZED DEBTOR, ARE AUTHORIZED BY
16 DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. THIS
17 IS A SOLICITATION BY DEBTOR ONLY. THE REPRESENTATIONS MADE
18 HEREIN ARE THOSE OF DEBTOR AND NOT OF ITS ATTORNEYS OR ANY OTHER
19 PROFESSIONAL. PORTIONS OF THIS DISCLOSURE STATEMENT DESCRIBING
20 DEBTOR'S FINANCIAL CONDITION HAVE NOT BEEN SUBJECTED TO AN
21 INDEPENDENT AUDIT, BUT PREPARED FROM INFORMATION COMPILED BY
22 DEBTOR FROM RECORDS MAINTAINED IN THE ORDINARY COURSE OF ITS
23 OPERATIONS. REASONABLE EFFORTS HAVE BEEN MADE TO ACCURATELY
24 PREPARE ALL FINANCIAL INFORMATION WHICH MAY BE CONTAINED IN THIS
25 DISCLOSURE STATEMENT FROM THE INFORMATION AVAILABLE TO DEBTOR.
26 HOWEVER, AS TO ALL SUCH FINANCIAL INFORMATION, DEBTOR IS UNABLE
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1 TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN
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3 IS WITHOUT ERROR.

4 AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER
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6 ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL
7
8 NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT,
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10 LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE
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12 IN SETTLEMENT NEGOTIATIONS. THE CONTENTS OF THIS DISCLOSURE
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14 STATEMENT SHOULD NOT BE CONSTRUED AS LEGAL, BUSINESS OR TAX
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16 ADVICE TO HOLDERS OF CLAIMS AGAINST OR EQUITY INTERESTS IN
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18 DEBTOR. CREDITORS AND INTEREST HOLDERS SHOULD CONSULT THEIR
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20 OWN LEGAL COUNSEL OR TAX ADVISOR ON ANY QUESTIONS OR CONCERNS
21
22 RESPECTING TAX, SECURITIES, OR OTHER LEGAL EFFECTS OF THE PLAN ON
23
24 THEM.
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26 27 **III. DEBTOR'S HISTORY AND BUSINESS BACKGROUND**

28 29 **A. History of PLHI**

30 PLHI is a Washington corporation headquartered in Vancouver, Washington. PLHI
31
32 was formed in 1996 and began with just 17 sold homes. As PLHI's sales grew in volume, so
33
34 did its business structure, going from a single entity to a holding company model with
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36 separate corporate entities that were incorporated for purposes of acquiring and then
37
38 developing each development. Effective on October 15, 2008, each of the separate
39
40 companies was merged into PLHI.¹
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44 ¹ The entities that were merged into PLHI are: Banner Properties, Inc.; Banner Properties of
45 Oregon, Inc.; Brush College Properties, Inc.; Cedar Creek Properties, Inc.; Courtyard at
46 Fairfield, Inc.; Elk Meadows Properties, Inc.; Emerald Vista, Inc.; Fairfield, Inc.; Garrette
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1 **B. Business of Debtor.**

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3 **1. Summary Description of the Business.**

4 One of the largest homebuilders in Southwest Washington and Northern Oregon,
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6 PLHI is engaged in the business of developing and selling real estate for residential purposes
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8 in Southwest Washington and the Portland metropolitan area and the Salem, Oregon area.
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10 PLHI builds single family houses and town homes.
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12 PLHI has earned an outstanding reputation for high quality construction and
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14 customer service. PLHI's core business is to acquire real estate, obtain the necessary
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16 government permits and approvals required for the property to be platted, either as a single
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18 family home or as a legal subdivision, and construct the infrastructure, including the
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20 utilities, rights-of-way, sidewalks, street lighting and other improvements that are to be
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22 included in the particular subdivision and constructs the residential dwellings on each
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24 individual lot. PLHI also constructs homes for owners on land owned by the owners. PLHI
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26 offers design services through its design studio to enable customers to help build their dream
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28 home.
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30 PLHI has focused its construction efforts on building livable communities and
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32 innovative floor plans. PLHI has won numerous awards for its homes and design plans.
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34 Many of PLHI's new home communities feature resort amenities such as a clubhouse,
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36 outdoor pool, and walking trails.
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39 Pointe, Inc.; KCTL, Inc.; Kelley Creek at Pleasant Valley, Inc.; Lake River Properties, Inc.;
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41 Maple Creek Holdings, Inc.; Meriwether Estates, Inc.; Morgan's Vineyard, Inc.; North
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43 Pointe Estates, Inc.; Northwest Lease Options, Inc.; Osprey Pointe, Inc.; Pacific Lifestyle
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45 Development, Inc.; Pacific Lifestyle Homes, Inc.; PL Realty, Inc.; Platinum One, Inc.; Ponte
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47 Cino Properties, Inc.; Ponte Cino Townhome Properties, Inc.; Songbird, Inc.; Sunset Ridge
of Washington, Inc.; The Reserve at Cooper Mountain, Inc.; The Reserve at Sunset Ridge
Inc.; and Thornton Springs, Inc.

1 **2. Projects.**

2 As of the Petition Date, PLHI had 10 communities under construction, comprising
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4 279 lots in the aggregate. In addition, PLHI had approximately 18 individual lots, some
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6 with houses and some raw lands outside of their developments. As of the Petition Date
7
8 PLHI was working on homes in the following communities and locations:
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|--|----------------|
| 11 • Carson Estates | Camas, WA |
| 12 • Reserve at Sunset Ridge | Washougal, WA |
| 13 • Osprey Pointe | Ridgefield, WA |
| 14 • Taverner Ridge | Ridgefield, WA |
| 15 • Songbird | Vancouver, WA |
| 16 • Meriwether Estates | Woodland, WA |
| 17 • Chandler's Estates | Salem, OR |
| 18 • Morgan's Vineyard | Lafayette, OR |
| 19 • Cassini View | Ridgefield, WA |
| 20 • Ponte Cino | Clackamas, OR |
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25 **3. Products.**

26 PLHI designs and constructs a wide-variety of high quality residential dwellings. It
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28 builds single-family houses as well as town homes. In calendar year 2008, the price range
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30 of its products was from \$207,000 to \$641,000, with an average unit price of \$376,000.
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33 **4. Employees.**

34 As of May 11, 2010, PLHI employed 22 fulltime people and 3 part-time people in its
35
36 business operations. A summary of the number of employees by activity follows:
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39 Administration and Accounting	13
40 Construction Supervision5
41 Sales and Marketing7

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1 PLHI is not a party to any collective bargaining agreement, and no labor union or
2 other organization represents any employees. Employee relations are considered to be good
3 and there have been no labor relation problems in PLHI's history.
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7 **5. Warranties.**
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9 PLHI provides each of its customers with a standardized limited warranty that
10 obligates it to replace or repair, or pay the home buyer the reasonable cost of replacing or
11 repairing, defective plumbing, electrical, mechanical, and structural or other components of
12 a new residential unit. Under its standard warranty agreement, the warranty period is one
13 year from the date the home buyer is given possession of the property. In addition, prior to
14 the Petition Date, PLHI provided a 2-year warranty on major mechanical systems. PLHI
15 continues to provide a 10-year structural warranty. PLHI reserves funds to cover the one-
16 year limited warranty but purchases insurance coverage for the ten year warranty.
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25 **6. Government Regulation.**
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27 PLHI is subject to various federal, state and local laws, regulations and
28 administrative rules affecting its business. It must comply with laws regulating land use and
29 development, licensing and permitting, equal employment, minimum wages, and the like.
30 PLHI believes that presently it is in compliance with all such laws and requirements.
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35 **C. Management.**
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37 The following table identifies each executive officer and the director of PLHI as of
38 the date hereof and sets forth the current annual cash compensation to each.
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<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Annual Cash Compensation</u>
Kevin Wann	41	President, Chief Executive Officer	\$172,000

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D. Interest Holders.

PLHI has one class of voting common stock. As of the date hereof, there are 5,000 shares of common stock outstanding. The Wann Family Trust, Fund B directly owns all of the outstanding shares of common stock.

E. Related Party Transactions.

Transactions involving insiders or other related parties that PLHI deems material are summarized in this Section.

1. Insider Guaranties.

Mr. Wann guaranteed certain of the debt of PLHI. A schedule setting forth the parties to whom guaranties were issued and the amount of exposure under such guaranties is set forth below. Mr. Wann has reached agreement with each of three bank creditors on the resolution of these personal guaranties. The remainder of the debt guaranteed relates to surety bonds. Mr. Wann previously paid out on one guaranty of a surety bond claim and there is currently one surety bond claim pending. No claim has been made against Mr. Wann on his guaranty at this time.

Guaranteed Party	Nature of Guaranty	Maximum Amount
Bank of America	Unsecured line of credit	\$1,000,000
KeyBank	Unsecured line of credit	\$2,000,000
West Coast Bank	Unsecured line of credit	\$2,000,000
American C & I (Homes)	Surety Bond	\$12,000.00
American C & I (Homes)	Surety Bond	\$12,000.00
Travelers (Banner)	Surety Bond	\$15,000.00
Travelers(Brush College)	Surety Bond	\$15,000.00
Travelers (Claystone)	Surety Bond	\$15,000.00
Travelers (Emerald Vista)	Surety Bond	\$20,000.00
Travelers (Morgan's Vineyard)	Surety Bond	\$15,000.00
Travelers (PLHI)	Surety Bond	\$15,000.00

1	Travelers (Homes)	Surety Bond	\$20,000.00
2	Travelers (Ponte Cino)	Surety Bond	\$15,000.00
3	Travelers (Cooper Mountain)	Surety Bond	\$15,000.00
4	Travelers (Homes)	Surety Bond	\$15,000.00
5	American C & I (Banner)	Surety Bond	\$12,000.00
6	Travelers (Lake River)	Surety Bond	\$12,000.00
7	Travelers (Meriwether)	Surety Bond	\$12,000.00
8	Travelers (PLHI)	Surety Bond	\$12,000.00
9	Travelers (Homes)	Surety Bond	\$12,000.00
10	Travelers (Osprey Pointe)	Surety Bond	\$12,000.00
11	Travelers (Songbird)	Surety Bond	\$12,000.00
12	Travelers (Sunset Ridge)	Surety Bond	\$12,000.00
13	Travelers (Thornton Springs)	Surety Bond	\$12,000.00
14	Travelers (Homes)	Surety Bond	\$12,000.00
15	Travelers (Fairfield)	Surety Bond	\$1,279,740.00
16	Travelers (Sunset Ridge)	Surety Bond	\$56,394.00
17	Travelers (Sunset Ridge)	Surety Bond	\$5,959.00
18	Travelers (Homes)	Surety Bond	\$20,000.00

2. Interest Holders Avoidance Actions.

Prior to the Petition Date, PLHI was structured as a holding company with various wholly owned subsidiaries. These entities in turn did business with other companies directly or indirectly owned by Mr. and Mrs. Wann. In connection with the preparation for its bankruptcy filing PLHI began a detailed analysis of its books, including the transactions between entities which resulted in a determination that the intercompany transactions were not being recorded consistently. PLHI's accountants reviewed the books and journal entries and determined that they needed to be reclassified. The reclassification occurred after the Petition Date. The Committee and its advisors reviewed this reclassification and the transactions between PLHI and companies owned or controlled by Mr. and Mrs. Wann prior to the Petition Date to determine whether there were

1 causes of action that could be brought for the benefit of the estate. The parties, in negotiating the
2 treatment of unsecured creditors under the Plan agreed to resolve any such claims against Mr. Wann,
3
4 Mrs. Wann and any of their affiliates in exchange for a payment of \$750,000 to the estate.
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7 **3. Affiliates.**
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9 Exhibit A sets forth the affiliates of PLHI, which are comprised of companies owned
10 directly or indirectly by either Mr. Wann or Mrs. Wann.
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13 **F. Market Conditions.**
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15 **1. Residential Construction - Nationwide.**
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17 Home prices in the United States began to move on an upward trend beginning in
18 1996. The increase in home prices escalated significantly beginning in 2004, a trend that
19 continued in the Portland metropolitan area through 2007 when home prices fell
20 dramatically. Prices thereafter declined until May 2009, when for the first time since July
21 2006, the S&P/Case-Shiller Home Price Index (the "Index") did not decline. From its peak
22 of 206.52 in July 2006, the index declined to 139.98 in May 2009, a total decline of nearly
23 33 percent. However, since May 2009, the index has continued to recover. By the
24 beginning of March 2010, the index stood at 144.
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32 Source Data for this analysis is the Case Shiller 20-City composite index, not
33 seasonally adjusted.
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37 **2. Residential Construction - Portland Metropolitan Area.**
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39 Overall, the residential housing market in the Portland Metropolitan Area followed
40 the nationwide trend of growth, followed by decline. However, housing prices peaked in
41 July 2007, which was a full year after the nationwide peak. Based on data from the Index,
42 the Portland Metropolitan Area experienced an overall trend of rising home prices from
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1 January 1987 through July 2007. Housing prices in the Portland area peaked in August
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3 2007.

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5 Beginning in 2008, housing prices began to fall. While the decline was not as
6
7 significant as in other markets, the overall price decline in the Portland area during that
8
9 period was about 21 percent. Additionally, inventory levels, which were at a low of 2.0
10
11 months in March 2006 rose to a high of 19.2 months in January 2009. Inventory levels have
12
13 since declined and at the end of March 2010, the total inventory level in Portland was 7.8
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15 months.

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17 **G. Selected Financial Information.**

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19 The following table sets forth certain selected financial data as of December 31 of
20
21 the years indicated and for the fiscal years then ended. For prior years, the financial data
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23 was taken from consolidated financial statements which include the accounts of PLHI and
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25 its wholly owned subsidiaries.
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Income Statement Data:	2009 (Preliminary; Not Reviewed by Outside CPAs)	2008 (Reviewed Statements)
Total revenues	\$19,762,576	\$53,429,545
Pre-tax operating income (loss)	(\$3,998,975)	(29,637,672)
Land value decrease	*TBD	**9,491,595 ²
Balance Sheet Data:		
Other assets	12,347,840	12,364,057
Inventories	24,957,977	36,358,436
Total assets	37,305,817	48,722,493
Total liabilities	43,945,448	51,363,153
Interest holders' equity (deficit)	(6,639,631)	(2,640,660)

IV. THE BANKRUPTCY CASE

A. Events Leading to Bankruptcy.

In 2008 the housing market changed drastically. Although there continued to be demand for PLHI's homes and communities, turmoil in the financial and banking industry hurt PLHI. Available credit for purchasers tightened, severely impairing prospective buyers' ability to purchase homes. On top of reduced sales, PLHI's secured lenders revalued their collateral and demanded that PLHI to make significant payments to reflect the lower collateral values. Given the volatile market conditions and lack of available credit, PLHI did not expect the housing market to rebound in the near future.

Because of the market collapse, in 2008 many lenders were looking to exit homebuilder lending and were taking unprecedented actions to terminate their exposure,

² Finished Lot Impairment	\$7,487,390
Work in Progress Impairment	\$708,340
Finished Homes Impairment	<u>\$1,295,865</u>
Total Impairment	\$9,491,595

1 regardless of the impact it had on their borrowers. For these reasons it was – and remains –
2 extremely difficult for homebuilders to obtain the financing needed to operate, even when
3 operations have been adjusted to lowered market demand. As a result, PLHI was forced to
4 file this Bankruptcy Case to preserve both the inventory and working capital needed to
5 survive and reorganize as a going concern. PLHI looks to exit this Bankruptcy Case as a
6 smaller operating company that continues a payroll, generates income for employees and
7 many small businesses and pay taxes in a time when these activities are essential to the
8 economy.
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17 **B. Commencement of Bankruptcy Case.**

18 PLHI commenced this Bankruptcy Case by filing a voluntary petition for relief under
19 Chapter 11 of the Bankruptcy Code on October 16, 2008. No trustee has been appointed,
20 and PLHI has continued to manage its properties and affairs as debtor in possession pursuant
21 to section 1107 and 1108 of the Bankruptcy Code.
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27 **C. Official Committee of Unsecured Creditors.**

28 The Bankruptcy Code provides for the appointment of an official committee of
29 unsecured creditors in a Chapter 11 case to promote the interests of all unsecured creditors.
30 This committee is generally chosen from the 20 largest unsecured creditors and is appointed
31 by the United States trustee. In this Bankruptcy Case, the Official Committee of Unsecured
32 Creditors (the “Committee”) was formed on October 28, 2008. The current members of the
33 Committee and their respective representatives are: Milguard Manufacturing Inc.,
34 represented by Rikki Carter; Macadam Floor & Design, represented by Brett Casey; Parr
35 Lumber Company, represented by Bobbie Gallup; Western Pacific Building Materials Inc.,
36 represented by Donna Winn; Parsons Corp./Parsons RCI, represented by Robert Ledford;
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1 and Westside Drywall Inc., represented by Paul Samuelson. The Committee is represented
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3 by John Rizzardi of the law firm of Cairncross & Hemplemann, P.S.
4

5 The Committee initially retained Tieman & Associates as its financial advisor, but
6
7 later replaced that firm with Pivotal Solutions, Inc. The Committee and its advisors have met
8
9 extensively with representatives of PLHI and reviewed PLHI's financial information and
10
11 projections. Following these activities on behalf of all unsecured creditors the Committee
12
13 has endorsed the Plan in a letter that is enclosed with this Disclosure Statement.
14

15 **D. Funding for Postpetition Obligations.**
16

17 Since the commencement of this Bankruptcy Case, PLHI has timely paid or
18
19 performed all of its obligations incurred after the Petition Date. Its cash has come from
20
21 three principal sources: (1) bank deposits as of the bankruptcy filing, which totaled
22
23 \$477,553; (2) debtor in possession financing in the amount of \$1.7 million from Mr. and
24
25 Mrs. Wann pursuant to orders dated December 9, 2008 (Doc. No. 251) and March 5, 2010
26
27 (Doc. No. 943); and (3) cash collateral of its lenders, Bank of America, KeyBank, and West
28
29 Coast Bank, to the extent permitted under the orders entered on April 16, 2009 (Doc. Nos.
30
31 566, 568 and 565, respectively).
32

33 **E. Postpetition Operations.**
34

35 **1. Cash Collateral**
36

37 On the Petition Date, PLHI's business operations were at a standstill. It had
38
39 suspended its vertical construction activities in August 2008 and, at the time of the
40
41 bankruptcy filing, it did not have the ability to sell its real estate inventory in the ordinary
42
43 course of business because it could not deliver clear title to customers. Through a series of
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45 orders entered after the "first-day" hearing held on October 23, 2008, the Court authorized
46
47 PLHI on an interim basis to sell its real estate inventory in the ordinary course of business

1 free and clear of liens, and also authorized it to assume its prepetition sales contracts with
2 customers. A final order authorizing PLHI to sell its real estate inventory in the ordinary
3 course of business was entered on November 10, 2008. However, under those orders, PLHI
4 was not permitted to use any of the proceeds from the sale of its inventory as working
5 capital to fund its ongoing operations. In order to obtain authorization to use certain of the
6 sale proceeds, on December 30, 2008, PLHI filed a series of motions seeking authorization
7 to use cash collateral.
8

9 Each of the lenders filed objections to the use of their cash collateral. Although
10 PLHI reached agreement with WCB on the terms of the use of cash collateral, both BofA
11 and KeyBank continued their opposition. Hearings on approval of cash collateral were held
12 on February 17, 18 and 20, 2009. Following the hearings, on March 16, 2009 the
13 Bankruptcy Court denied use of cash collateral on the terms requested by PLHI. As a result,
14 on March 31, 2009, PLHI filed renewed motions for the use of cash collateral. As before,
15 although all of the lenders initially objected, PLHI was able to reach agreement with WCB
16 on the use of its cash collateral. No agreement was reached with KeyBank or BofA. A
17 hearing was held on April 13, 2009, at which time KeyBank and PLHI were able to agree on
18 the majority of the terms of the use of cash collateral. At that hearing the Bankruptcy Court
19 approved use of cash collateral as to all three lenders and orders approving the use of cash
20 collateral were entered on April 16, 2009.
21

2. Postpetition Sales

22 The table below summarizes PLHI's sales of completed homes and its actual
23 closings during the period from the Petition Date, through April, 2010.
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	Projected		Actual		Difference	
	# Units	\$	# Units	\$	# Units	\$
Chandler's						
Estates II	14	\$ 3,684,631	11	\$ 2,883,746	(3)	\$ (800,885)
Reserve at						
Sunset Ridge	13	\$ 3,701,186	12	\$ 3,695,650	(1)	\$ (5,536)
Ponte Cino						
Homes	6	\$ 2,090,684	6	\$ 2,112,802	-	\$ 22,118
Ponte Cino						
Townhomes	6	\$ 1,730,322	4	\$ 1,171,000	(2)	\$(559,322) ³
Morgan's						
Vineyard	14	\$ 4,072,048	14	\$ 3,594,232	-	\$(477,816) ⁴
Meriwether						
Discovery	18	\$ 4,441,966	2	\$ 470,001	(16)	\$(3,971,965) ⁵
Meriwether						
Hillshire	10	\$ 2,696,568	1	\$ 283,400	(9)	\$(2,413,168) ⁶
Taverner Ridge	16	\$ 4,993,641	12	\$ 3,889,671	(4)	\$(1,103,970)
Banner						
KeyBank	1	\$ 512,751	1	\$ 459,000	-	\$ (53,751)
Banner B of A	15	\$ 5,664,800	10	\$ 3,840,742	(5)	\$(1,824,058) ⁷
Osprey Pointe	6	\$ 2,394,779	3	\$ 1,220,755	(3)	\$(1,174,024) ⁸
Cassini View	1	\$ 393,248	1	\$ 398,000	-	\$ 4,752
Carson Estates	5	\$ 1,970,207	5	\$ 1,975,800	-	\$ 5,593
Songbird	10	\$ 3,294,073	14	\$ 4,676,118	4	\$1,382,046
PLH On Your						
Lot	0	\$ -	12	\$ 3,486,356	12	\$3,486,356
	135	\$41,640,902	108	\$34,157,273	(27)	\$(7,483,629)

³ The remaining lots given back to KeyBank.

⁴ This includes the sales of 2 lots and 12 homes.

⁵ The remaining lots were given back to KeyBank.

⁶ The remaining lots were given back to KeyBank.

⁷ Five lots were given back to BofA.

⁸ Three lots were given back to BofA.

1
2
3 **Other Important Developments.**
4

5 Since the commencement of this Bankruptcy Case, PLHI has improved its business
6 operations, resolved disputed claims asserted against it, and effectuated its business
7 reorganization and financial restructuring so that PLHI can emerge from this bankruptcy
8 case as a viable homebuilding business. A number of case benchmarks are described below.
9
10

11
12
13 **3. Postpetition Financing.**
14

15 Immediately after its filing, PLHI determined that it needed additional working
16 capital to operate its business and to pay bankruptcy-related expenses, so that the business
17 could continue to operate and maintain its value. In particular, without postpetition
18 financing, PLHI would have been unable to pay utility costs, maintenance costs and general
19 overhead. After determining that post petition financing was available only under section
20 364(c) of the Bankruptcy Code, PLHI's only option remained a loan from PLHI's principal
21 and his wife. Accordingly, on November 7, 2008, PLHI filed a motion seeking approval for
22 it to obtain debtor in possession financing in the amount of \$1,700,000 from the Wanns.
23 Interest on the loan accrues at 5.75% per annum. PLHI is required to make monthly interest
24 payments to the Wanns, but is not required to make principal payments. As security for the
25 loan, the Wanns were granted a first priority security interest in all unencumbered assets of
26 the estate (other than avoidance actions) and a second priority security interest in all other
27 assets. The Bankruptcy Court entered an order approving the loan on December 8, 2008.
28 By stipulated order entered on March 5, 2010, the Wanns agreed to extend the maturity date
29 from November 30, 2009 to the earlier to occur of (i) June 30, 2010, (ii) the entry of an
30 order converting this case to one under Chapter 7 of the Bankruptcy Code, (iii) the entry of
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1 an order dismissing the case, (iv) the entry of an order appointing a trustee or examiner for
2 PLHI, or (v) the entry of an order confirming a plan of reorganization.
3

4
5 **4. Resolution of Oregon Construction Lien Claims.**
6

7 In 2008, PLHI was unable to meet its obligations to its vendors and other trade
8 creditors. Many of those creditors hold unpaid claims that arose from performing labor or
9 transporting or furnishing materials or supplies to one of PLHI's project sites prior to the
10 bankruptcy filing. Some of those creditors asserted statutory liens on PLHI's present and
11 former real estate inventory under Oregon's Construction Lien Law. In order to provide a
12 procedure for those prepetition construction lien claims to be identified and resolved in an
13 expeditious manner, on April 16, 2009, the Court entered an order establishing procedures
14 for the resolution and payment of prepetition Oregon construction lien claims. Pursuant to
15 that order, PLHI has resolved all 58 construction lien claims that have been asserted, which
16 includes 47 Oregon lien claims.
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27 **5. Haykin Settlement.**
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29 On August 5, 2009, a former employee, Julia Haykin, filed a motion for relief from
30 stay to pursue a wage action against PLHI, Mr. Wann and another former employee of
31 PLHI. Ms. Haykin alleged that she was owed past due commissions and because of the
32 willful failure to pay her when due, she was entitled to double the amount plus attorney fees.
33 Ms. Haykin asserted a claim against the estate in the amount of \$221,460. The parties
34 agreed to mediate the issue with Bankruptcy Judge Elizabeth Perris on October 12, 2009.
35 During the mediation the parties settled for a payment from Mr. Wann and an allowed
36 unsecured claim against PLHI of \$110,000. The Bankruptcy Court approved the settlement
37 by order dated November 5, 2009 (Doc. No. 811).
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1 **6. Relief from Stay – KeyBank Meriwether Discovery and Ponte Cino**
2 **Town homes.**

3 Under the agreed cash collateral ordered between PLHI and KeyBank, KeyBank was
4 entitled to relief from the automatic stay as to 6 undeveloped lots at Ponte Cino Town homes
5 to KeyBank. The Bankruptcy Court approved a stipulated relief from stay order on October
6 5, 2009 (Doc. No. 761). To date KeyBank has not foreclosed on this property. PLHI
7 understands that KeyBank wants PLHI to include these lots in the property it has agreed to
8 sell for KeyBank.
9

10 On August 31, 2009, KeyBank filed a motion for relief from stay to foreclose on
11 PLHI's remaining undeveloped lots at Meriwether – Discovery. After reviewing the project,
12 PLHI agreed to a stipulated order allowing KeyBank to pursue a non-judicial foreclosure.
13 The Bankruptcy Court approved the stipulated order on October 1, 2009 (Doc. No. 768). To
14 date KeyBank has not foreclosed on this property. PLHI understands that KeyBank wants
15 PLHI to include these lots in the property it has agreed to sell for KeyBank.
16

17 **7. Sale of Developed Lots to BofA.**

18 Under the cash collateral ordered between PLHI and BofA, PLHI agreed that it
19 would release its interests in the remaining undeveloped Banner Properties and Osprey
20 Pointe lots through either (a) a deed in lieu of foreclosure, (b) granting BofA relief from the
21 automatic stay, or (c) such other relief as is appropriate and agreed to by the parties. BofA
22 elected to purchase the lots pursuant to a sale under section 363 of the Bankruptcy Code and
23 agreed to credit bid the aggregate debt of \$912,610.65, thus eliminating any unsecured
24 deficiency claim that it might have against the estate. PLHI estimated that the unsecured
25 deficiency claim would have been approximately \$170,000. An order approving the sale
26

1 was entered on February 1, 2010 (Doc. No. 914). The sale was consummated on February
2
3 26, 2010.
4

5 **8. WCB Relief from Stay to Pursue Deeds in Lieu.**
6

7 As of the Petition Date there were two undeveloped Banner Properties lots that were
8
9 collateral for loans from WCB. PLHI determined that it was not cost effective to build
10
11 homes on those lots and agreed to grant WCB relief from the automatic stay to exercise its
12
13 state law remedies against the lots pursuant to Deeds in Lieu of Foreclosure - No Merger.
14
15 An order approving the sale was entered on February 26, 2010 (Doc. No. 930). The Deeds
16
17 in Lieu of Foreclosure - No Merger were executed thereafter.
18

19 **9. Assumption of Unexpired Leases and Executory Contracts**
20

21 PLHI was party to leases for storage facilities for construction equipment and
22
23 supplies. PLHI elected to assume these leases. Assumption required no cure payment and
24
25 was beneficial to the estate. The Bankruptcy Court approved the assumption by order dated
26
27 May 13, 2009 (Doc. No. 620).
28

29 Additionally, PLHI leases space for its office and design center. As of the Petition
30
31 Date, the office space was 12,888 square feet. PLHI subsequently determined that it did not
32
33 need that much space and entered into negotiations with its Landlord for the reduction of its
34
35 space by 3,236 square feet. Additionally, in connection with the reduction of its lease space
36
37 and because of its financial condition, PLHI requested a rent reduction and suspension of the
38
39 company's obligation to pay additional rent, which includes common area maintenance
40
41 charges and taxes. The Landlord has agreed to reduce PLHI's monthly rent, which resulted
42
43 in significant savings.
44

45 The Landlord agreed to this request on certain conditions. The rent reduction
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47 (including the suspension of payment of additional rent) applies for the period between May

1, 2009 and the earlier to occur of confirmation of a plan or July 31, 2010. After that time, the parties have agreed that the rent will be adjusted to a market rate. Additionally, PLHI forfeited its existing security deposit in the amount of \$17,210.00, but PLHI was not required to provide a new security deposit and the landlord agreed that it would not have a claim against the estate for any additional unpaid rents.

PLHI filed a motion seeking approval of the lease amendment and assumption on June 1, 2009. No objections to the motion were received and the Bankruptcy Court approved the assumption by order dated June 12, 2009 (Doc. No. 650).

Finally, PLHI sought to assume its obligations under the Asset Protection Program Risk Retention Group, Inc. (the "Program") and the related commercial general liability insurance policy (the "Policy") and to pay all due but unpaid premiums under the Policy or otherwise in connection with the Program. The Program was created by PLHI and several other residential homebuilders to purchase their commercial general liability insurance, which enabled them to better control the availability, terms and conditions of their insurance. In addition, the participants' equity interests allow them to share underwriting profits of the Program. Assumption of the Program and the underlying Policy was beneficial to the estate because it allowed PLHI to continue and maintain its prior investment and provided PLHI with a continued source of insurance coverage. No objections to the motion were received and an order approving the assumption of the Program and the related Policy was entered on April 1, 2010 (Doc. No. 978).

10. Settlement with KeyBank

PLHI and KeyBank participated in plan treatment settlement sessions with the Honorable Elizabeth Perris, the first on January 28, 2010 and the second on March 5, 2010. Through this process the parties reached an agreement for KeyBank's plan treatment. An

1 order approving the settlement was entered on April 2, 2010 (Doc No. 980). Under the
2 agreement PLHI agreed to return all real estate collateral except for partially constructed
3 homes to KeyBank and agreed to work with KeyBank to sell those assets to KeyBank
4 pursuant to section a sale under 363 of the Bankruptcy Code. PLHI also returned all of
5 KeyBank's cash except for amounts necessary to pay accrued expenses, set up a warranty
6 reserve and complete construction of the partially constructed homes. To alleviate the harm
7 to the estate, KeyBank agreed to pay PLHI for amounts that would have otherwise been
8 payable under the Cash Collateral Order had PLHI continued construction activities on the
9 KeyBank projects. KeyBank agreed to waive all Secured, Unsecured and Administrative
10 Claims it may have against the estate, including, without limitation, its deficiency claim
11 against the estate in an amount estimated at between \$2,250,000 and \$6,000,000. Finally,
12 KeyBank agreed that it would support and vote in favor of any plan of reorganization that
13 provides for the treatment of KeyBank as set forth in the settlement agreement.
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27 **11. Settlement with BofA**

28 PLHI and BofA participated in two plan treatment settlement sessions with
29 the Honorable Elizabeth Perris, the first on January 29, 2010 and the second on April 5,
30 2010. Through this process the parties reached an agreement in principal on the terms of
31 BofA's plan treatment. An order approving the settlement was entered on June __, 2010
32 (Doc. No. ____). Under the Settlement Agreement PLHI and BofA agreed on the amount of
33 BofA's secured and unsecured claims, the interest rate to be paid on the secured claim and
34 the continued use of cash collateral to finish construction at the last remaining BofA project
35 – Songbird. The parties also agreed that BofA would pursue non-judicial foreclosure of the
36 property that is outside of the estate, i.e. the 6 finished Carson Estate Lots, the 2 Sandpines
37 finished lots, and the 48 finished lots at Reserve at Cooper Mountain, and that PLHI would
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1 cooperate with those efforts. Finally, BofA agreed to support and vote in favor of any plan
2 of reorganization that provides for the treatment of BofA as set forth in the settlement
3 agreement.
4
5

6 7 **V. ASSETS AND LIABILITIES**

8 9 **A. Assets.**

10 PLHI's assets are comprised of current assets and long-term assets. Current assets
11 consist primarily of cash and receivables that are expected to be collected within a period of
12 one year; inventories and all other assets are included in long-term assets. A brief review of
13 PLHI's assets, by categories used for financial reporting purposes, is set forth below. For
14 purposes of this Disclosure Statement, unless otherwise noted, inventory values are stated at
15 their fair market value. For purposes of determining estimated fair market values, lot prices
16 are generally valued at amounts used under the Cash Collateral Order, and construction
17 costs are stated at historical cost, unless otherwise noted. These adjustments have not been
18 audited or reviewed by a certified public accountant and they might not be in accordance
19 with generally accepted accounting principles. Accordingly, certain adjustments have been
20 made to PLHI's financial statements. These adjustments include the write-off of
21 uncollectible receivables and the write-down of inventory to fair value. These adjustments
22 have not been audited or reviewed by a certified public accountant and they might not be in
23 accordance with generally accepted accounting principles.
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39 **1. Current Assets.**

40 Set forth below are PLHI's current assets as of April 30, 2010:

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42		
43	Restricted cash	\$3,906,805
44	Unrestricted cash	\$2,816,338
45	Professional deposits	\$177,089
46	Utility deposits	\$12,036
47	Prepaid expenses	\$3,760

Earnest Money Deposits	\$74,478
Accounts Receivable	<u>\$225,522</u>
Total	\$7,216,028

2. Inventories.

PLHI currently owns 64 vacant lots, 20 homes under construction and 5 finished homes. These numbers do not include the KeyBank projects, which will be sold prior to the Effective Date. The summary set forth below shows PLHI's inventory within each of these general categories by project and indicates for each project its estimated value as of April 30, 2010. In each case the values only reflect the value of the real estate, not cash collateral, and are based on PLHI's estimates, which for the lots, are generally based on Cash Collateral Values.

	Vacant Lots	Homes Under Construction	Completed Homes	Total	Estimated Value
Chandler's Estates II	19	3	1	23	1,699,675
Songbird	11	5	2	18	2,049,567
Reserve at Sunset Ridge	19	3	2	24	2,087,693
PLHI Owned Properties	15	9	0	24	2,570,873
Totals	64	20	5	89	8,407,808

Set forth below is a summary that shows for the WCB and BofA project indicated the estimated bulk (going concern) value and its estimated liquidation value as of July 31, 2010.

Project	Status	Bulk Value	Liquidation Value
Chandler's Estates II	Homes and platted lots	\$1,750,676	\$1,191,675
Reserve at Sunset Ridge	Homes and platted lots	\$1,981,697	\$1,350,027
Songbird	Homes and platted lots	\$1,827,561	\$1,397,342

1 **3. Fixed Assets.**

2 As of April 30, 2010, the book value of PLHI's model furniture, furnishings and
3
4 equipment, including leasehold improvements, net of accumulated depreciation, was
5
6 \$67,189.
7

8 **B. Liabilities.**

9 **1. Secured Claims.**

10 PLHI is indebted to various creditors whose claims are secured, in whole or in part,
11
12 by PLHI's property. Under the Plan, these claims have been placed in 6 classes. These
13
14 secured claims are summarized below. The categories of secured claims discussed below
15
16 are for convenience and do not track the classes of claims set forth in the Plan.
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19

20 **a. Lenders' Claims.** PLHI is indebted to three different lenders for
21
22 borrowed money. Each lender holds one or more trust deed liens on certain of PLHI's real
23
24 estate inventory. These lenders are:
25

26 (i) Bank of America. BofA holds claims against PLHI based on
27
28 loans secured by its subdivisions known as Osprey Pointe, Cassini View, and
29
30 Songbird. BofA was also secured by properties developed by Banner Properties.
31
32 The agreed amount of Bank of America's secured claim is \$3,438,000 as of April 5,
33
34 2010, which will be reduced by payments made to BofA from April 5, 2010 forward.
35

36 (ii) KeyBank. KeyBank holds claims against PLHI for loans
37
38 secured by the subdivisions known as Ponte Cino, Morgan's Vineyard, Meriwether
39
40 Estates (Hillshire and Discovery) and Taverner Ridge. The debt recorded on PLHI's
41
42 books as of the Petition Date was \$18,950,880.52, which includes interest accrued up
43
44 to the Petition Date. As a result of the settlement with KeyBank, KeyBank's
45
46 remaining secured claim is estimated at \$2,538,118 as of April 30, 2010 (without
47

1 taking into account the value of the lots to be either returned to KeyBank or sold for
2 KeyBank). However, under the settlement agreement, PLHI's only obligation is to
3 turn over all proceeds, or if the Homes do not sell, the Homes, to KeyBank in full
4 satisfaction of the KeyBank Secured Claim. Additionally, KeyBank has agreed to
5 waive any Unsecured Claim it may have against PLHI.
6
7
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9

10 (iii) West Coast Bank. WCB holds claims against PLHI for a loan
11 secured by the subdivisions known as Chandler's Estate and Sunset Ridge. WCB
12 was also secured by two Banner Properties homes, but has obtained relief from stay
13 and has obtained ownership of those properties pursuant to deeds in lieu of
14 foreclosure. The debt recorded on PLHI's books as of the Petition Date was
15 \$8,209,443, which includes interest accrued up to the Petition Date. However, the
16 parties have agreed that WCB's Secured Claim will be fully satisfied by the turn over
17 of all undeveloped lots, most of the cash in the Segregated DIP Account and the
18 proceeds from the WCB Remaining Collateral or the WCB Remaining Collateral if
19 PLHI cannot sell it during the 270-day disposition period, all as more fully set forth
20 in the Plan. Additionally, WCB has agreed to waive any Unsecured Claim it may
21 have against PLHI.
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34 **b. Oregon Construction Lien Claims.** Vendors of PLHI have asserted
35 91 statutory liens on PLHI's present and former real estate inventory under Oregon's
36 Construction Lien Law (ORS 87.001 to 87.060 and 87.075 to 87.093). The amount of these
37 statutory lien claims total \$1,061,443.09. As of April 30, 2010, there were 2 remaining
38 Oregon claims against property of the estate in the aggregate amount of \$16,500.00. PLHI
39 estimates that these claims will be allowed in full with interest.
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1 **c. Washington Construction Lien Claims.** Vendors of PLHI have
2
3 asserted 204 statutory liens on PLHI's present and former real estate inventory under
4
5 Washington's Mechanic Lien law (Chapter 60.04 RCW). The amount of these statutory lien
6
7 claims total \$1,212,101.66. As of April 30, 2010, there were 4 Washington liens asserted
8
9 against property still owned by PLHI in the aggregate amount of \$10,069.64. To the extent
10
11 they have not already been paid, these lien claims are unsecured because the liens are junior
12
13 in priority to the trust deed liens of lenders and there is no equity in the properties to which
14
15 the liens can attach. Accordingly, creditors asserting statutory liens under Washington law
16
17 will be treated as Unsecured Creditors.

18 **d. Property Tax Claims.** PLHI's real estate inventory and is subject to
19
20 statutory liens that secure claims of governmental units for property taxes, assessments, and
21
22 similar impositions. As of April 30, 2010, the total amount of the unpaid prepetition real
23
24 property taxes was \$30,100. Prepetition personal property taxes in the amount of \$548 are
25
26 also currently due. Property taxes associated with real property being sold to KeyBank or
27
28 other third party or transferred to West Coast Bank will attach to the real property and be
29
30 paid when such property is sold to a third party, or as otherwise may be agreed between the
31
32 taxing authorities and such entities.

33
34
35 **2. Administrative Expense Claims.**

36 Administrative Expense Claims consist primarily of (a) costs and expenses incurred
37
38 in connection with the operation of PLHI's business after the Petition Date, (b) claims of
39
40 professionals who are or were employed at the expense of PLHI's bankruptcy estate, to the
41
42 extent allowed by the Court, and (c) fees and charges assessed against the bankruptcy estate
43
44 under 28 U.S.C. § 1930, including quarterly fees payable to the United States trustee.
45
46 Assuming the Effective Date of the Plan is on or around July 31, 2010, PLHI projects that
47

1 unpaid Administrative Expense Claims will total approximately \$1,459,000, consisting of (i)
2 approximately \$1,346,000 in postpetition trade payables and other accrued expenses
3
4 (including property taxes), (ii) approximately \$100,000 owing to professionals, net of
5
6 amounts provisionally paid through such date pursuant to Court orders, and (iii) \$13,000 for
7
8 United States trustee quarterly fees.
9

10 **3. Priority Claims.**

11 PLHI estimates that the unpaid claims that arose before the Petition Date that are
12 entitled to priority under section 507(a) of the Bankruptcy Code will total less than \$7,000.
13
14 These claims consist of (a) the claims of individuals, to the extent of \$2,425 each, arising
15
16 from the deposit of money in connection with the purchase of homes, for the personal,
17
18 family, or household use of such individuals, under purchase contracts that have been
19
20 cancelled or otherwise terminated. There are 5 creditors with deposit claims.
21
22

23 **4. Customer Home Warranty Claims.**

24 Claims for breach of PLHI's one-year warranty given to buyers of its homes or town
25
26 homes that were sold prior to the Petition Date are believed by management to be immaterial
27
28 in amount. Six proofs of claim were timely filed by customers, but certain of them are
29
30 arguably construction defect claims and not warranty claims. PLHI anticipates filing
31
32 objections to certain of these claims. PLHI estimates that the total Allowed amount of those
33
34 claims will not exceed \$15,000.
35
36

37 **5. Other Unsecured Claims.**

38 In addition to those claims described above, a variety of other claims that are not
39
40 entitled to priority under the Bankruptcy Code have been asserted against PLHI in this case.
41
42 The categories of unsecured claims discussed below are for convenience and do not track
43
44 the classes of unsecured claims set forth in the Plan.
45
46
47

1 **a. Lender's Claims.** The largest category of unsecured claims consists
2 of those of PLHI's lenders. These claims are based on (i) unsecured lines of credit and
3 letters of credit provided to PLHI, (ii) guaranties of loans made to certain of PLHI's
4 affiliates, and (iii) loans made to PLHI that are secured by real estate inventory, and cash
5 collateral generated by the postpetition sale of completed homes, that is worth less than the
6 unpaid balances owing on those loans. The amounts of these claims can vary significantly
7 depending primarily on whether the calculation is made for the purposes of distributions
8 under the Plan or for the purposes of estimating distributions in a Chapter 7 case. Under the
9 Plan, property is valued on a "going concern" basis, whereas in a Chapter 7 case claims
10 would be liquidated through foreclosure proceedings or in deed-in-lieu of foreclosure
11 transactions at lesser values. KeyBank and WCB waived their right to receive any
12 distributions on account of their unsecured claims under a confirmed plan, but not in a
13 Chapter 7 case. Additionally, PLHI reached agreement with BofA that its unsecured claim
14 would be \$3.4 million, which does not include claims for property transferred outside of the
15 estate. PLHI estimates that the total amount of the lenders' unsecured claims in a Chapter 7
16 case would be approximately \$18 million. For the purposes of the Plan, however, the total
17 amount of these claims will be \$3.4 million.

18 **b. Contractors' Unsecured Claims.** PLHI is indebted to various
19 vendors for their performance of labor or from the transportation or furnishing of materials
20 or supplies at one of PLHI's project sites prior to the bankruptcy filing. Although certain of
21 these claims were secured by statutory construction liens, the majority were unsecured.
22 PLHI estimates that the total amount of these unsecured claims (i.e. not secured by liens
23 which have priority over the trust deed liens of lenders) is approximately \$3.6 million.

1 **c. Homeowner Associations' Claims.** Courtyard at Fairfield Home
2
3 Owners' Association has asserted claims against PLHI based on alleged construction defects
4
5 of \$5 million. PLHI disputes this claim. This claim may be covered by certain of PLHI's
6
7 insurance policies and PLHI has agreed to relief from stay to allow the association to
8
9 proceed against the insurance company, which would be the sole remedy to the association.
10
11 At the present time, it is difficult for PLHI to estimate the amounts at which this claim will
12
13 be finally allowed for purposes of distribution under the Plan.

14 **d. Other Claims.** PLHI is also liable on unsecured claims not described
15
16 in the above categories. These claims include a \$1 million claim filed by Ron Goddu for
17
18 alleged damages arising from a landslide that occurred on his property and a \$550,000 claim
19
20 in favor of a contractor, Parsons RCI.

21 22 23 **VI. DESCRIPTION OF THE PLAN**

24 A discussion of the principal provisions of the Plan is set forth below. The
25
26 discussion of the Plan which follows is a summary only and is qualified in its entirety by
27
28 reference to the full text of the Plan itself. You are urged to read the Plan in full and make a
29
30 thorough review of its terms in evaluating whether to accept or reject the Plan. If any
31
32 inconsistency exists between the summary herein and the Plan, the terms of the Plan control.

33 34 **A. Classification and Treatment of Claims and Equity Interests.**

35 36 **1. Classification Generally.**

37 The Plan designates Classes of Claims and Equity Interests for purposes of voting on
38
39 the Plan and making distributions. All Claims, other than Administrative Expense Claims
40
41 and Priority Tax Claims, and all Equity Interests are placed in Classes under the Plan. A
42
43 Claim is classified in a particular Class only to the extent that the Claim falls within the
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1 description of that Class and is classified in one or more other Classes to the extent that any
2 remainder of the Claim falls within the description of such other Classes.
3

4 5 **2. Unclassified Claims**

6 7 **a. Administrative Claims**

8
9 Administrative Claims are claims incurred by PLHI during the Bankruptcy Case.
10
11 Each Administrative Claim other than Fee Claims accrued on or before, but unpaid as of, the
12 Effective Date will be paid in full in Cash on the latest of: (i) the Effective Date; (ii) the
13 date on which the Bankruptcy Court enters an order allowing such Administrative Claim; or
14 (iii) the date on which PLHI or Reorganized Debtor, as the case may be, and the holder of
15 such Allowed Administrative Claim otherwise agree in writing; provided, however, that
16 Administrative Claims representing indebtedness or other obligations incurred in the
17 ordinary course of business of PLHI will be paid in the ordinary course of business and in
18 accordance with any terms and conditions of any agreement or order relating thereto. PLHI
19 does not believe that there are any holders of Administrative Claims that are not either Fee
20 Claims or incurred in the ordinary course.
21

22 23 **b. Professional Fees**

24
25 Each professional person, whose retention or appointment in the Bankruptcy Case
26 has been approved by the Bankruptcy Court, including counsel retained by PLHI, PLHI's
27 accountants and other advisors, as well as the attorneys and financial advisors retained by
28 the Committee, has a Fee Claim against the estate. Each professional shall file with the
29 Bankruptcy Court and serve on all parties required to receive notice a final fee application
30 within 45 days after the Effective Date. The failure to timely file the fee application as
31 required under the Plan will result in the Fee Claim being forever barred and discharged.
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1 All Allowed Fee Claims shall be paid by the Reorganized Debtor from Cash from operations
2 or through application of any retainer held by such professional person.
3

4
5 **c. Priority Tax Claims**
6

7 Each holder of an Allowed Priority Tax Claim will be paid the full amount of its
8 Allowed Priority Tax Claim on the Effective Date. PLHI estimates that the total amount
9 owed to creditors in this Class is \$93,000.
10

11
12 **3. Classified Claims.**
13

14 A creditor will receive a distribution under the Plan only if such creditor is the holder
15 of an Allowed Claim. Distributions under the Plan are in full satisfaction of all Claims
16 against PLHI. The Plan provides for classification and treatment of all Claims against the
17 estate as follows:
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22
23 **a. Class 1 Priority Claims**
24

25 Class 1 is unimpaired. On the latest of: (i) the Effective Date; (ii) ten days after the
26 date a Priority Claim becomes an Allowed Claim; and (iii) the date on which PLHI or the
27 Reorganized Debtor, as the case may be, and the holder of such Allowed Priority Claim
28 otherwise agree in writing, each holder of an Allowed Priority Claim will be entitled to
29 receive Cash in an amount sufficient to render the Allowed Priority Claim unimpaired under
30 section 1124 of the Bankruptcy Code, in full settlement, release and discharge of such
31 Allowed Priority Claim.
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39 **b. Class 2. BofA Secured Claim**
40

41 Class 2 is impaired by the Plan and BofA is entitled to vote on the Plan. BofA shall
42 receive the treatment described below and more fully in the Plan.
43

44 (i) On the Effective Date, the Reorganized Debtor shall execute and deliver to
45 BofA the BofA Note and the other Amended BofA Loan Documents. The BofA Note shall
46
47

1 be in a principal amount of equal to the difference between (1) \$3,438,000.00, and (2) all
2 payments made by PLHI to BofA from April 5, 2010 through the Effective Date. Interest
3 shall accrue on the principal balance of the BofA Note at the BofA Interest Rate from the
4 Effective Date until the principal balance is paid in full.
5

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7
8
9 (ii) The Reorganized Debtor shall make payments to BofA in accordance with
10 the terms of the BofA Settlement Agreement.
11

12 (iii) The BofA Note shall be secured by a first priority trust deed lien on all
13 remaining lots, partially completed homes and Homes at Songbird, and a first priority
14 security interest in the holder's interest in the Segregated DIP Cash. In each case the claims
15 are subject and subordinate only to Claims of governmental units for ad valorem property
16 taxes and similar impositions and Allowed Class 5 or Class 6 Claims, if any, that are secured
17 by liens on such property and that have priority over the liens of BofA. So long as the
18 Reorganized Debtor is not in default of its obligations hereunder to BofA, BofA shall, from
19 time to time on the written request of the Reorganized Debtor, release its lien on lots in
20 Songbird, in each case, upon receipt of a principal payment on the BofA Note equal to the
21 applicable lot release payment as provided for in the BofA Amended Loan Documents.
22

23 (iv) The Reorganized Debtor shall cooperate fully with BofA to the extent
24 necessary to assist in the disposition of the BofA Other Collateral as contemplated by the
25 BofA Settlement Agreement.
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39 **c. Class 3. KeyBank Secured Claim**

40 Class 3 is impaired by the Plan and KeyBank is entitled to vote on the Plan.
41
42 KeyBank shall receive the treatment agreed to by the parties and approved in the settlement
43 agreement and more fully in the Plan. KeyBank shall have a secured claim that is secured
44 by a first priority trust deed lien on the KeyBank WIP, and a first priority security interest in
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1 the holder's interest in the Segregated DIP Cash. In each case, the claim is subject and
2 subordinate only to Claims of governmental units for ad valorem property taxes and similar
3 impositions and Allowed Class 5 or Class 6 Claims, if any, that are secured by liens on such
4 property and that have priority over the liens of KeyBank.
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9 **d. Class 4. West Coast Bank Secured Claim**

10 Class 4 is impaired by the Plan and WCB is entitled to vote on the Plan. WCB shall
11 receive the treatment described below and more fully in the Plan.
12
13

14 (i) On the Effective Date, PLHI will turn over all Segregated DIP Cash except
15 for amounts necessary to (1) complete all existing WCB WIP (including Community Costs)
16 and (2) cover warranty reserve expenses in the amount of \$1,500 per house remaining under
17 the one-year warranty, including all Homes sold in the year prior to the Effective Date.
18
19
20

21 (ii) On the Effective Date, the Reorganized Debtor shall execute and deliver to
22 WCB the WCB Note, which shall be secured by (1) a first priority trust deed lien on the
23 WCB Remaining Collateral, (2) a first priority security interest in the holder's interest in the
24 remaining Segregated DIP Cash, and (3) the WCB Adequate Protection, in each case,
25 subject and subordinate only to Claims of governmental units for ad valorem property taxes
26 and similar impositions and Allowed Class 5 or Class 6 Claims, if any, that are secured by
27 liens on such property and that have priority over the liens of WCB.
28
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30

31 (iii) After the Effective Date, the Reorganized Debtor shall be responsible for
32 completing all WCB Remaining Collateral as soon as commercially practicable, but in any
33 event no later than four months after the Effective Date as more fully set forth in the Plan.
34
35
36

37 (iv) On the Effective Date or as soon thereafter as possible, Reorganized Debtor
38 will transfer the WCB Undeveloped Lots to WCB pursuant to deeds in lieu of foreclosure.
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1 (v) On the Effective Date Reorganized Debtor and WCB shall enter into the
2 WCB Takedown Agreement, a copy of which is attached as Exhibit B. The WCB
3 Takedown Agreement will provide, among other things the terms pursuant to which the
4 Reorganized Debtor will be entitled to take down WCB Undeveloped Lots. The
5 Reorganized Debtor's right to purchase WCB Undeveloped Lots is subject to WCB's right to
6 sell them to a third party.
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12 (vi) WCB will waive any Unsecured Claims it may be entitled to assert against
13 PLHI, including any Claim for payment of the unsecured line of credit and shall not
14 participate in any distributions to Class 9.
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19 **e. Class 5. Oregon Lien Claims**

20 Class 5 is impaired by the Plan and each holder of a Class 5 Claim is entitled to vote
21 on the Plan. The Reorganized Debtor shall pay to each holder of an Allowed Class 5 Claim,
22 in Cash from the proceeds of the collateral securing such Claim, the Allowed Amount
23 thereof pursuant to the terms of the Oregon Lien Order. All Allowed Class 5 Claims shall
24 bear interest at the Plan Interest Rate from the date of perfection of such statutory lien until
25 payment.
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33 **f. Class 6. Property Tax Lien Claims**

34 Class 6 is unimpaired and the holders of Class 6 Claims are entitled to vote on the
35 Plan. The Reorganized Debtor shall pay to each holder of an Allowed Class 6 Claim, in
36 Cash on the Effective Date from the appropriate Segregated DIP Account. Real Property
37 Tax claims on real property to be transferred by PLHI to one or more of its lenders shall
38 attach to the property to be transferred and be paid on the ultimate disposition of that
39 property.
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1 **g. Class 7. Surety Bond Claims**

2 Class 7 is not impaired by the Plan and the holders of Class 7 Claims are not entitled
3
4 to vote on the Plan. The rights of the creditors holding Class 7 Claims will remain
5
6 unaltered. Class 7 only includes the claims of those surety bonds that have been assumed
7
8 and excludes those surety bonds that have been terminated or rejected pursuant to this Plan.
9

10 **h. Class 8. Small Unsecured Claims**

11 Class 8 is impaired by the Plan and each holder of a Class 8 Claim is entitled to vote
12
13 on the Plan. The Reorganized Debtor shall pay to each holder of a Small Unsecured Claim,
14
15 in Cash, an amount equal to 40 percent of the Allowed Amount thereof paid (i) 50% on the
16
17 Effective Date and (ii) 50% on the 6 month anniversary of the Effective Date, or (iii) as soon
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19 thereafter as the Allowed Amount is determined.
20
21

22 **i. Class 9. Other Unsecured Claims.**

23 Each holder of an Unsecured Claim will receive a distribution of 10% of its Allowed
24
25 Unsecured Claim, which distribution will be paid annually, on the anniversary of the
26
27 Effective Date for the next five years. The distributions will be made as follows: (i) 10% on
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29 the first anniversary of the Effective Date; (ii) 15% on the second anniversary of the
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31 Effective Date, (iii) 20% on the third anniversary of the Effective Date; (iv) 25% on the
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33 fourth anniversary of the Effective Date; and (v) 30% on the fifth anniversary of the
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35 Effective Date.
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37

38 **j. Class 10. Existing Interests**

39 Class 10 is unimpaired by the Plan and the holder of the Interests of PLHI shall be
40
41 deemed to accept the Plan. The Wann Trust, as the current holder of the Interests, shall be
42
43 entitled to retain the Interests in exchange for the Equity Contribution.
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1 **B. Plan Funding.**

2 The Plan will be funded by a combination of PLHI's Cash on hand as of the Effective
3 Date, including all remaining amounts in the Segregated DIP Accounts, the Equity
4 Contribution, the Settlement Payment and Cash that is collected or generated by the
5 Reorganized Debtor after the Effective Date.
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10 **C. Distributions to Creditors.**

11 The provisions of the Plan that govern distributions to creditors and the resolution of
12 disputed and contingent claims are set forth in Article 8 of the Plan. Certain of those
13 provisions are summarized below.
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18 **1. Distributions Generally.**

19 Distributions under the Plan will be made on the Effective Date and on each
20 Distribution Date, or, in each case, as soon thereafter as is practicable, as more specifically
21 set forth in the Plan. Distributions to be made by the Reorganized Debtor under the Plan
22 ordinarily will be made by check drawn on a domestic bank. Withholding taxes and other
23 amounts required to be withheld under applicable law will be deducted from distributions.
24 Distributions to creditors pursuant to the Plan ordinarily will be delivered by regular mail,
25 postage prepaid, in an envelope addressed as directed in a request served on the Reorganized
26 Debtor as provided in the Plan, but if no such request is made, at the address shown in
27 PLHI's schedules, as they may from time to time be amended, or, if a different address is
28 stated in a proof of claim duly filed with the Court, to such address.
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40 **2. Undeliverable or Unclaimed Distributions.**

41 For a period of 180 days after any particular distribution is made pursuant to the
42 Plan, distributions that are unclaimed, including (a) checks that have been returned as
43 undeliverable without a proper forwarding address and (b) checks that were not mailed or
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1 delivered because of the absence of a proper address to which to mail or deliver the same,
2 shall be distributed to the holders of Allowed Claims entitled thereto upon presentment to
3 the Reorganized Debtor of satisfactory proof of entitlement. The Reorganized Debtor shall
4 make a reasonable effort to ascertain the correct mailing address from information generally
5 available to the public for each holder of an Allowed Claim whose check or other property
6 cannot be mailed or delivered because of the absence of a proper address or whose check
7 has been returned without a proper forwarding address. On the first day after the expiration
8 of such 180 day period (i) holders of Allowed Claims previously entitled to such
9 undeliverable or unclaimed distribution shall no longer be entitled to such distribution and
10 (ii) such Claims shall be deemed disallowed for all purposes, including any future
11 distributions. All disbursements made under the Plan that remain unclaimed shall become
12 property of the Reorganized Debtor.
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25 **3. Time Bar for Cashing Distribution Checks.**

26 The Reorganized Debtor may (but shall not be obligated to) stop payment on any
27 check issued by it in respect of Allowed Claims if such check is not negotiated within 60
28 days after the date of issuance thereof. Request for reissuance of any check shall be made to
29 the Reorganized Debtor in accordance with the Plan, by the holder of the Allowed Claim to
30 whom such check originally was issued, prior to the expiration of the 180 day period set
31 forth in the Plan. After such date, the holder of any such Claim who has failed to make a
32 timely request for reissuance of such a voided check shall not be entitled to any other or
33 further distribution under this Plan on account of such voided check or such Claim.
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1 **4. Limitations on Amending Claims.**

2 Except as otherwise provided in the Plan, after the Confirmation Date, a proof of
3
4 claim may be amended by the holder of such Claim solely to decrease, but not to increase,
5
6 the amount of such Claim.
7

8 **D. Executory Contracts and Unexpired Leases.**

9 On the Effective Date, all executory contracts and unexpired leases of PLHI not
10
11 previously rejected and not the subject of a pending motion to reject will be assumed by the
12
13 Reorganized Debtor, in each case, in accordance with the provisions and requirements of
14
15 sections 365 and 1123(b)(2) of the Bankruptcy Code. Any monetary amounts that are in
16
17 default under a contract or a lease that is assumed pursuant to the Plan will be satisfied by a
18
19 cash payment unless otherwise agreed.
20
21

22 **VII. THE REORGANIZED DEBTOR**

23 **A. Ownership and Management.**

24 **1. Interest Holders.**

25 The Plan provides that on the Effective Date the current holder of the Interests, the
26
27 Wann Trust, shall be entitled to retain the Interests in exchange for the Equity Contribution.
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29

30 **2. Management.**

31 The Plan provides that upon the occurrence of the Effective Date, existing
32
33 management will remain in place. PLHI is currently managed by a single board member,
34
35 Mr. Wann.
36
37

38 The following table identifies each person who is expected to serve as an executive
39
40 officer of the Reorganized Debtor on the Effective Date and sets forth the initial annual
41
42 compensation to each. Mr. Wann is the only insider and his annual cash compensation will
43
44 be \$344,000.
45
46
47

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kevin Wann	41	President
Matthew Lewis	32	Designated Broker - Washington
Daniel Webb	48	Chief Financial Officer

The Reorganized Debtor's executives will receive benefits that are the same or substantially the same as those to be provided to other employees. These benefits include the group health insurance plan, and the ability to contribute to a 401(k) savings plan.

B. Financial Projections.

PLHI has prepared financial projections for the Reorganized Debtor based on the treatment of PLHI's various claims under the Plan. Attached hereto as Exhibit C are projected balance sheets, income statements and cash flow statements for the Reorganized Debtor as of and for the five fiscal yearly periods beginning August 2010 and ending December, 2015. These projections are based on a number of assumptions. The major assumptions for these projections are included as part of Exhibit C. The Reorganized Debtor's business plan contemplates the acquisition of new projects during the life of the Plan. As to these new projects, it is assumed that (i) the Reorganized Debtor will purchase, beginning in 2010 at sites not yet identified by management, a total of 370 finished lots; (ii) the average purchase price per lot will be \$70,000; and (iii) the cost of these new projects will be funded out of corporate cash flow. The financial information in these projected financial statements is presented on a consolidated basis in summary form. PLHI believes that the major assumptions on which these financial projections are based are reasonable and that the projected results are reasonably achievable by the Reorganized Debtor's management team. However, as is the case with all "forward looking" statements, no

1 assurance can be given that the Reorganized Debtor will be able to achieve the projected
2 results. A discussion of the risks attendant to the Reorganized Debtor's performance of its
3 business plan is contained in Section XI. below.
4
5

6 7 **VIII. VOTING ON THE PLAN**

8 9 **A. Voting Eligibility.**

10 In general, a holder of a claim or interest may vote to accept or reject a plan if both
11 (1) the claim or interest is "allowed," which means generally that it is not disputed,
12 contingent or unliquidated in amount, and (2) the claim or interest is part of a class that is
13 impaired by the plan. If a creditor or equity interest holder will not receive any distribution
14 under a plan in respect of such claim or interest, the Bankruptcy Code deems such holder to
15 have rejected the plan and provides that the holder is not entitled to vote. On the other hand,
16 if the claim or interest is part of a class that is not impaired, the Bankruptcy Code
17 conclusively presumes that holder of such claim or interest has accepted the plan and
18 provides that the holder is not entitled to vote. Under section 1124 of the Bankruptcy Code,
19 a class of claims or interests is deemed to be "impaired" under a plan unless (1) the plan
20 leaves unaltered the legal, equitable, and contractual rights to which such claim or interest
21 entitles the holder thereof, or (2) notwithstanding any legal right to an accelerated payment
22 of such claim or interest, the plan (a) cures all existing defaults (other than defaults resulting
23 from the occurrence of events of bankruptcy), (b) reinstates the maturity of such claim or
24 interest as it existed before the default, (c) compensates the holder of such claim or interest
25 for any damages resulting from such holder's reasonable reliance on such legal right to an
26 accelerated payment, and (d) does not otherwise alter the legal, equitable, or contractual
27 rights to which such claim or interest entitles the holder of such claim or interest. Under the
28 Plan, only the holders of allowed claims (or of disputed claims that are temporarily allowed
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1 by the Court for voting purposes) in Classes 2, 3, 4, 5, 8, and 9 are entitled to vote. All other
2
3 Classes of claims are not impaired under the Plan and are deemed to have accepted the Plan
4
5 without voting.
6

7 **B. Voting Deadline.**

8
9 The deadline for submitting completed ballots is 5:00 p.m. (prevailing Pacific Time)
10
11 on July 27, 2010 (the "Voting Deadline"). Only those ballots that are actually received by
12
13 the Voting Deadline will be counted as either accepting or rejecting the Plan.
14

15 **C. Acceptance By a Class.**

16
17 As a condition to confirmation, the Bankruptcy Code requires, among other things,
18
19 that (1) at least one class of claims that is impaired under the plan has accepted the plan,
20
21 determined without including any acceptance of the plan by any insider, and (2) except
22
23 under certain circumstances, each class of claims or interests that is impaired under the plan
24
25 accepts the plan. Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by
26
27 an impaired class of claims as acceptance by holders of at least two-thirds in dollar amount
28
29 and more than one-half in number of claims in that class, but for that purpose counts only
30
31 the votes of those creditors who actually vote to accept or reject the plan.
32

33 Additionally, if creditors in a Class fail to (i) vote to either accept or reject the Plan
34
35 and (ii) object to the Plan, such Class shall be deemed to accept the Plan.
36

37 **D. Voting Procedures.**

38
39 **1. Submission of Ballots.**

40
41 A form of ballot is included among the materials that accompany this Disclosure
42
43 Statement. All votes to accept or reject the Plan must be cast by properly submitting a duly
44
45 completed and executed ballot. Ballots must be delivered to Debtor's counsel as designated
46
47 in the ballot at the address or fax number set forth on the ballot form and must be received

1 by the Voting Deadline. The method of delivery of a ballot is at the election and risk of the
2
3 voting creditor. Please carefully follow the directions contained on the enclosed ballot.
4

5 **2. Incomplete Ballots.**
6

7 Any ballot received which is not signed, which does not contain sufficient
8
9 information to permit the identification of the claimant, or which does not indicate either an
10
11 acceptance or rejection of the Plan or which indicates both acceptance and rejection of the
12
13 Plan will be invalid and will not be counted as a vote cast with respect to the Plan.
14

15 **3. Withdrawal or Change of Votes.**
16

17 A ballot may be withdrawn by delivering a written notice of withdrawal to Debtor's
18
19 counsel at any time prior to the Voting Deadline. Thereafter, a withdrawn ballot will not be
20
21 effective unless approved by the Bankruptcy Court. In order to be valid, a notice of
22
23 withdrawal must (i) specify the name of the holder who submitted the vote on the Plan to be
24
25 withdrawn, (ii) contain a description of the Claim to which it relates and (iii) be signed by
26
27 the holder in the same manner as on the ballot. PLHI expressly reserves the absolute
28
29 right to contest the validity of any such withdrawals of votes on the Plan. Any creditor who
30
31 has submitted to Debtor's counsel a properly completed ballot prior to the Voting Deadline
32
33 may change such vote by submitting to Debtor's counsel prior to the Voting Deadline a
34
35 subsequent properly completed ballot. In the case where more than one timely, properly
36
37 completed ballot is received with respect to the same Claim, the ballot that bears the latest
38
39 date will be counted.
40

41 **4. Voting Multiple Claims.**
42

43 Only one form of ballot is provided for voting. Any creditor that holds a Claim in
44
45 more than one Class or multiple Claims within a Class is required to vote separately with
46
47

1 respect to each Claim. Please sign, and return in accordance with the instructions on the
2 ballot form, a separate ballot with respect to each such Claim.
3

4 5 **IX. CONFIRMATION OF THE PLAN**

6 7 **A. Confirmation Hearing.**

8 The Bankruptcy Court will hold a hearing to consider confirmation of the Plan
9 commencing on August 3, 2010, at 10:00 a.m. (prevailing Pacific Time) in the United States
10 Bankruptcy Court for the Western District of Washington, Federal Building, 500 W. 12th,
11 Second Floor, Vancouver, Washington 98660. The confirmation hearing may be adjourned
12 from time to time by the Bankruptcy Court without further notice, except for an
13 announcement of the adjourned date and time made at the confirmation hearing.
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20 21 **B. Deadline for Objecting to Confirmation.**

22 Any objection to confirmation of the Plan must be in writing, must state with
23 specificity the grounds for any such objections, and must be filed with the Bankruptcy Court
24 on or before July 27, 2010.
25
26
27
28

29 30 **C. Requirements for Confirmation.**

31 **1. Confirmation Requirements Generally.**

32 The Bankruptcy Court can confirm the Plan only if all the requirements of section
33 1129 of the Bankruptcy Code are met. Among the requirements for confirmation are that (i)
34 the plan be accepted by all impaired classes of claims and of interests or, if rejected by an
35 impaired class, the plan “does not discriminate unfairly” and is “fair and equitable” as to
36 such class, (ii) the plan is feasible, and (iii) the plan is in the “best interest” of creditors and
37 stockholders that are impaired under the plan.
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1 **2. Feasibility.**

2 In connection with confirmation with the Plan, the Bankruptcy Court will have to
3
4 determine that the confirmation of the Plan is not likely to be followed by the liquidation or
5
6 the need for further financial reorganization of the Reorganized Debtor unless such
7
8 liquidation or reorganization is proposed in the Plan. PLHI believes that the Reorganized
9
10 Debtor will be able to perform its obligations under the Plan. See Section VII. above.
11

12 **3. Best Interests of Creditors.**

13 Section 1129(a)(7) of the Bankruptcy Code requires that any holder of a claim or
14
15 interest in an impaired class that votes against a proposed plan must receive under the plan
16
17 distributions that have a value, as of the effective date of the plan, at least equal to that
18
19 which the holder would receive if the debtor's assets were liquidated under Chapter 7 of the
20
21 Bankruptcy Code. To determine what creditors and Interest holders would receive if PLHI
22
23 were liquidated, the Bankruptcy Court must determine the dollar amount that would be
24
25 generated from a liquidation of its assets in the context of a hypothetical liquidation. Such
26
27 determination must take into account the fact that, as to each asset, all claims secured by that
28
29 asset would have to be paid in full, as would all administrative expenses in the Chapter 7
30
31 case and in the original Bankruptcy Case, before the balance of those proceeds would be
32
33 made available to pay unsecured creditors and Interest holders. To determine if a plan is in
34
35 the best interest of each impaired class, the present value of the distributions from the
36
37 proceeds of the hypothetical liquidation of the assets (after subtracting the amount
38
39 attributable to secured claims and administrative expenses of the bankruptcy case) must be
40
41 compared with the present value of the consideration offered to each such class under the
42
43 plan. In addition, the rule of absolute priority of distribution from a debtor's estate must be
44
45 applied. Under that rule, no junior holder of a claim or equity interest may receive
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1 distributions under a plan unless the plan provides that all senior classes will be paid in full
2 or unless all senior classes vote to accept the plan. After consideration of the effect that a
3 Chapter 7 liquidation would have on the ultimate proceeds available for distribution to
4 PLHI's creditors and Interest holders (including (i) the increased cost and expense of
5 liquidation under Chapter 7 arising from fees payable to a Chapter 7 trustee and the
6 attorneys and other professional advisors to such trustee, (ii) the time value of money
7 resulting from what is likely a more protracted proceeding, and (iii) the application of the
8 rule of absolute priority to distributions in a Chapter 7 case), PLHI has determined that
9 confirmation of the Plan will provide each creditor in an impaired Class with a greater
10 recovery than such creditor would receive in a Chapter 7 case concerning PLHI.
11

12 PLHI estimates that in a liquidation case under Chapter 7, general unsecured
13 creditors would receive cash distributions totaling approximately \$318,866. It is also
14 estimated that in a Chapter 7 case, general unsecured creditors would realize on their claims
15 a total recovery in the approximate amount of 3 cents per. The actual recovery, as a
16 percentage of allowed claims, would depend largely on the size of the pool of the general
17 unsecured claims after the lenders' unsecured deficiency claims are determined and after all
18 disputed claims are finally resolved. A liquidation analysis is attached hereto as Exhibit D.
19 All general unsecured creditors will recover more under the Plan than they would in a
20 Chapter 7 case. The recovery on any particular general unsecured claim, as a percentage of
21 the claim, will depend on how that claim is classified in the Plan. The holders of unsecured
22 claims in Classes 7 (i.e., surety bond claims) will receive payment of the full amounts of
23 such claims, subject to the limitations stated in the Plan. The holders of Small Unsecured
24 Claims in Class 9 (i.e., those of with claims of less than \$8,000 or who elect to reduce their
25 claim to \$8,000) will receive two lump payments on the Effective Date and on the 6 month
26

1 anniversary of the Effective Date which payments will equal to 40 percent of their claims.
2
3 The holders of unsecured claims in Class 9 (i.e., those that do not fall in other Classes) will
4
5 receive a distribution of 10 cents on the dollar over a 5 year period.
6

7 **D. Confirmation Over Dissenting Class.**
8

9 The Bankruptcy Code permits confirmation of a plan even if it is not accepted by all
10
11 impaired classes, as long as (a) the plan otherwise satisfies the requirements for
12
13 confirmation, (b) at least one impaired class of claims has accepted it without taking into
14
15 consideration the votes of any insiders in such class, and (c) the plan is “fair and equitable”
16
17 and does not “discriminate unfairly” as to any impaired class that has not accepted the plan.
18
19 These so-called “cramdown” provisions are set forth in section 1129(b) of the Bankruptcy
20
21 Code.
22

23 **1. Fair and Equitable.**
24

25 The Bankruptcy Code establishes different “cramdown” tests for determining
26
27 whether a plan is “fair and equitable” to dissenting impaired classes of secured creditors,
28
29 unsecured creditors, and equity interest holders as follows:
30

31 **a. Secured Creditors.**
32

33 A plan is fair and equitable to a class of secured claims that rejects the plan if the
34
35 plan provides: (a) that each of the holders of the secured claims included in the rejecting
36
37 class (i) retains the liens securing its claim to the extent of the allowed amount of such
38
39 claim, whether the property subject to those liens is retained by the debtor or transferred to
40
41 another entity, and (ii) receives on account of its secured claim deferred cash payments
42
43 having a present value, as of the effective date of the plan, at least equal to such holder’s
44
45 interest in the estate’s interest in such property; (b) that each of the holders of the secured
46
47 claims included in the rejecting class realizes the “indubitable equivalent” of its allowed

1 secured claim; or (c) for the sale, subject to section 363(k) of the Bankruptcy Code, of any
2 property that is subject to the liens securing the claims included in the rejecting class, free
3 and clear of such liens with such liens to attach to the proceeds of sale, and the treatment of
4 such liens on proceeds in accordance with clause (a) or (b) of this paragraph.
5
6
7

8
9 **b. Unsecured Creditors.**

10 A plan is fair and equitable as to a class of unsecured claims that rejects the plan if
11 the plan provides that: (a) each holder of a claim included in the rejecting class receives or
12 retains under the plan property of a value, as of the effective date of the plan, equal to the
13 amount of its allowed claim; or (b) the holders of claims and interests that are junior to the
14 claims of the rejecting class will not receive or retain any property under the plan.
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21 **c. Holders of Equity Interests.**

22 A plan is fair and equitable as to a class of equity interests that rejects the plan if the
23 plan provides that: (a) each holder of an equity interest included in the rejecting class
24 receives or retains under the plan property of a value, as of the effective date of the plan,
25 equal to the greatest of the allowed amount of (i) any fixed liquidation preference to which
26 such holder is entitled, (ii) the fixed redemption price to which such holder is entitled, or
27 (iii) the value of the interest; or (b) the holder of any interest that is junior to the interests of
28 the rejecting class will not receive or retain any property under the plan.
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36 PLHI believes that the Plan and the treatment of all impaired Classes under the Plan
37 satisfy the foregoing requirements for nonconsensual confirmation of the Plan.
38
39

40
41 **2. Unfair Discrimination.**

42 A plan of reorganization does not “discriminate unfairly” if a dissenting class is
43 treated substantially equally with respect to other classes similarly situated and no class
44 receives more than it is legally entitled to receive for its claims or interests. PLHI believes
45
46
47

1 that the Plan does not discriminate unfairly against any impaired Class. Under the Plan,
2
3 most non-priority unsecured claims are divided into five classes. Two of those classes are
4
5 not impaired by the Plan, and three are impaired by the Plan. The business justification for
6
7 not treating all non-priority claims in the same manner differs for each class. The surety
8
9 bond claims in Class 7 are treated as unimpaired because PLHI intends to assume the surety
10
11 agreements.

12
13 The unsecured claims in Class 8 (i.e., those that do not fall in other Classes and are
14
15 less than \$8,000 each or are reduced to \$8,000 by election) are separately classified for
16
17 reasons of administrative convenience as permitted by section 1122(b) of the Bankruptcy
18
19 Code. PLHI proposes to pay the holders of those claims a cash payment equal to 40 percent
20
21 of the Allowed Amount thereof paid (a) 50% on the Effective Date and (b) 50% on the 6
22
23 month anniversary of the Effective Date on the Effective Date because (i) PLHI's vendor
24
25 relationships with those creditors are considered valuable rights in that most of the holders
26
27 of the Class 8 Claims are laborers, materialmen, carriers and suppliers that have helped
28
29 provide the means for PLHI to produce high-quality homes in an efficient and cost-effective
30
31 manner, (ii) PLHI wishes to preserve these vendor relationships for the Reorganized Debtor,
32
33 (iii) the vendor relationships will contribute to the success of the reorganization under the
34
35 Plan, and (iv) the total amount to be paid on these claims, i.e., \$250,000 or less, is relatively
36
37 small in comparison to the amounts to be distributed under the Plan to the holders of Class 9
38
39 Claims.

40
41 **E. Effects of Confirmation.**

42
43 **1. Vesting of Estate Property.**

44
45 As of the Effective Date, the Reorganized Debtor shall be revested with title to all
46
47 property of its estate, free and clear of all liens, Claims and interests, except to the extent

1 provided in the Plan or in the Confirmation Order. As of the Effective Date, the
2
3 Reorganized Debtor may use and dispose and otherwise deal with such property and may
4
5 conduct its affairs, in each case, without supervision of the Bankruptcy Court and free of any
6
7 restrictions imposed by the Bankruptcy Code or the Bankruptcy Rules, other than those
8
9 restrictions expressly imposed by this Plan or the Confirmation Order.

10 11 **2. Discharge.**

12 Except, as otherwise provided in this Plan or in the Confirmation Order, on the
13
14 Effective Date, pursuant to section 1141(d) of the Bankruptcy Code, PLHI and the
15
16 Reorganized Debtor shall be discharged from all liability on any and all Claims against
17
18 PLHI that arose at any time before the Effective Date.
19

20 21 **3. Exculpation.**

22 Section 11.7 of the Plan provides:

23
24
25 Neither Debtor nor the Committee, nor any of their respective
26
27 officers, directors, members, representatives or agents who served
28
29 as such during this Bankruptcy Case, shall have or incur any
30
31 liability to any Entity for any act or omission in connection with or
32
33 arising out of the negotiation of this Plan, the pursuit of
34
35 confirmation of this Plan, the pursuit of approval of the Disclosure
36
37 Statement, the consummation of this Plan, the transactions
38
39 contemplated and effectuated by this Plan, the administration of
40
41 this Plan or any other act or omission during the administration of
42
43 the Bankruptcy Case or Debtor's Estate. Notwithstanding the
44
45 foregoing, Claims arising from gross negligence or willful
46
47 misconduct on behalf of Debtor are not waived or released in any
manner by this Plan. In all respects, Debtor will be entitled to rely
upon the advice of counsel with respect to its duties and
responsibilities under the Plan.

41 42 **4. Effect on Insurance Policies.**

43 Section 11.8 of the Plan addresses insurance policies issued to PLHI and the various
44
45 agreements related to such policies.
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47

X. ALTERNATIVES TO THE PLAN

PLHI believes that the Plan affords its creditors the greatest opportunity for realization on its assets and the greatest possible value that could be realized on their claims. PLHI also believes that the Plan is fair and reasonable in its treatment of all constituencies. Possible alternatives to the Plan which might arise if the Plan is rejected or if the Court refuses to confirm the Plan include (i) dismissal of the Bankruptcy Case; (ii) conversion of the Bankruptcy Case to a case under Chapter 7 of the Bankruptcy Code, which would entail the mandatory appointment of a trustee; (iii) submission by PLHI of an alternative plan or the filing by another party in interest of an alternative or competing plan; and (iv) the appointment of a Chapter 11 trustee for the purpose of operating PLHI's business, administering PLHI's assets, and filing an alternative plan.

XI. RISK FACTORS

This Disclosure Statement contains forward-looking statements that involve risks and uncertainties. The following discussion is intended to be a non-exclusive summary of certain of those risks and uncertainties. Creditors should consider carefully these risks and are encouraged to supplement this summary with their own analysis and evaluation of the Plan.

The Reorganized Debtor's business plan contemplates the achievement of certain sales goals, pricing levels, and margins on sales. It is, of course, impossible to predict accurately the results of future operations. The homebuilding business is subject to substantial risks. The principal risks relate to the uncertainties in the real estate industry in general and to those in the particular real estate markets in which the Reorganized Debtor will operate, as well as the uncertain state of the consumer mortgage credit markets. If the Reorganized Debtor is unable to achieve the projected results, it may be unable to generate

1 sufficient cash to fund its ongoing operations and perform its obligations to creditors under
2 the Plan. Management believes, however, that its financial projections are based on
3 reasonable assumptions and that the projected results are reasonably achievable.
4

5
6 **Real Estate Market Conditions.** The real estate industry is cyclical and is
7 significantly affected by changes in national and local economic and other conditions, such
8 as employment levels, availability of mortgage financing, interest rates, consumer
9 confidence and demand. Because of the long-term financial commitment involved in
10 purchasing homes, general economic uncertainties tend to result in more caution on the part
11 of home buyers, which tends to result in fewer sales. Such uncertainties could adversely
12 affect the performance of the Reorganized Debtor.
13
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16 **Project Development Risks.** The initial success of the Reorganized Debtor will
17 depend largely upon its ability to purchase new lots, fund construction of Homes on those
18 lots and market and sell those lots within a reasonable time frame. Because the Reorganized
19 Debtor will be required to fund all phases of the development, there is a risk that the
20 Reorganized Debtor may have insufficient funds to purchase and build out sufficient lots to
21 maintain a competitive advantage within its existing cost structure. The Reorganized
22 Debtor's ability to build and sell completed homes within the projected time frames are
23 subject to events and factors beyond the control of the Reorganized Debtor. Such factors
24 include, among others, local population trends, local employment levels, market conditions,
25 neighborhood values, local economic and social conditions, supply and demand for homes
26 in the target market niches, competition from similar projects, interest rates, real estate tax
27 rates, and governmental fiscal policies.
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1 **Governmental Regulation.** The homebuilding industry is subject to a variety of
2 federal, state and local statutes, ordinances, rules and regulations. Such government
3 regulation may result in increased costs of developing projects and building homes.
4

5 **Uncertain Economic Conditions.** The United States economy in general and the
6 states of Oregon and Washington in particular are experiencing a significant downturn. It is
7 unclear at the present time when the economy will fully recover. Although PLHI believes
8 that the economy is in the process of stabilizing or soon will stabilize, it is impossible to
9 know whether that belief is true or not.
10

11 **Competition.** The Reorganized Debtor will experience competition from other
12 homebuilders. Competitors likely will continue attempts to take advantage of PLHI's
13 bankruptcy as a sales tool.
14

15 **XII. FEDERAL TAX CONSEQUENCES OF THE PLAN**

16 **CIRCULAR 230 NOTICE: WE MUST INFORM YOU THAT TO ENSURE**
17 **COMPLIANCE WITH THE REQUIREMENTS IMPOSED BY THE INTERNAL**
18 **REVENUE SERVICE, ANY FEDERAL TAX ADVICE CONTAINED IN THIS**
19 **DOCUMENT RELATING TO FEDERAL TAXES, WAS NOT INTENDED OR**
20 **WRITTEN TO BE USED OR RELIED UPON, AND IT CANNOT BE USED OR**
21 **RELIED UPON, FOR THE PURPOSE OF AVOIDING TAX RELATED**
22 **PENALTIES THAT MAY BE IMPOSED UNDER FEDERAL TAX LAW. UNDER**
23 **THESE RULES, A TAXPAYER MAY RELY ON PROFESSIONAL ADVICE TO**
24 **AVOID FEDERAL TAX PENALTIES ONLY IF THAT ADVICE IS REFLECTED**
25 **IN A COMPREHENSIVE TAX OPINION THAT CONFORMS TO STRINGENT**
26 **REQUIREMENTS UNDER FEDERAL LAW. THIS DISCUSSION WAS WRITTEN**
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1 **IN CONNECTION WITH THE DEBTOR SOLICITING ACCEPTANCES OF THE**
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3 **PLAN THROUGH THIS DISCLOSURE STATEMENT.**
4

5 **A. Scope of Discussion.**
6

7 The following discussion summarizes in general terms certain material federal
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9 income tax consequences of the implementation of the Plan based upon existing provisions
10
11 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), court
12
13 decisions, and current administrative rulings and practice. This summary does not address
14
15 the federal income tax consequences of the Plan to holders of priority claims or of secured
16
17 claims, nor does it address any state, local or foreign tax matters or the federal income tax
18
19 consequences to certain types of creditors (including financial institutions, life insurance
20
21 companies, tax exempt organizations and foreign taxpayers) to which special rules may
22
23 apply. No rulings or opinions have been or will be requested from the Internal Revenue
24
25 Service with respect to any of the tax aspects of the Plan. PLHI is not making any
26
27 representations regarding the particular tax consequences of confirmation and
28
29 consummation of the Plan as to creditors or Interest holders, nor is PLHI or its professionals
30
31 rendering any form of legal opinion or tax advice as to such tax consequences. The tax laws
32
33 applicable to corporations in bankruptcy are complex and are subject to significant
34
35 uncertainties. Each creditor and shareholder is urged to consult his, her or its own tax
36
37 advisor as to the consequences of the Plan under federal and applicable state, local and
38
39 foreign tax laws. Accordingly, the following summary of federal income tax consequences
40
41 of the Plan is for informational purposes only and should not be construed as tax advice.
42

43 **B. Tax Consequences to the Reorganized Debtor.**
44

45 PLHI is a corporation that has elected to be treated as an S corporation as defined in
46
47 IRC Section 1361. As such the debtor is generally not subject to federal income tax.

1 Instead, debtor's sole shareholder is subject to federal and state income taxes on his personal
2 income tax return on any income or losses generated by the debtor. There is also the
3 possibility that under certain circumstances, the S corporation status of the debtor, because
4 of the various tax consequences of the Plan, could terminate. If this termination were to
5 happen PLHI would then be subject to federal and applicable state and local income taxes on
6 its income and losses as a C corporation.
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13 **1. Cancellation of Debt and Reduction of Tax Attributes.**
14

15 In general, absent an exception, a debtor will realize and recognize cancellation of
16 debt ("COD") income upon satisfaction of its outstanding indebtedness for total
17 consideration less than the amount of such indebtedness. The amount of COD income, in
18 general, is the excess of (a) the adjusted issue price of the indebtedness satisfied, over (b) the
19 sum of (x) the amount of cash paid, and (y) the fair market value of any new consideration
20 given in satisfaction of such indebtedness.
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26 A debtor will not, however, be required to include any amount of COD income in
27 gross income if the debtor is under the jurisdiction of a court in a case under Chapter 11 of
28 the Bankruptcy Code and the discharge of debt occurs pursuant to that proceeding. Instead,
29 as a consequence of such exclusion, a debtor must reduce its tax attributes by the amount of
30 COD income that it excluded from gross income under Section 108 of the Internal Revenue
31 Code. In general, tax attributes will be reduced in the following order: (1) net operating
32 losses; (2) general business credits; (3) minimum tax credits; (4) capital loss carry forwards;
33 (5) tax basis in assets; (6) passive activity losses and credits (7) and foreign tax credits. A
34 debtor with COD income may elect first to reduce the basis of its depreciable assets under
35 section 108(b)(5) of the Internal Revenue Code. Because the Plan provides that holders of
36 Allowed Unsecured Claims will receive cash payments on account of their Claims, the
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1 amount of COD income, and accordingly the amount of tax attributes required to be
2 reduced, will depend on the amount of those payments. Because all Claims will not be fully
3 paid under the Plan, COD income will be realized by the Reorganized Debtor on the
4 Effective Date of the Plan.
5
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9 **C. Tax Consequences to Holders of General Unsecured Claims.**

10 Pursuant to the Plan, holders of Allowed Unsecured Claims will receive one or more
11 Cash distributions in full satisfaction of their Claims.
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13

14
15 **1. Gain or Loss.**

16 In connection with the implementation of the Plan, each holder of an Allowed
17 Unsecured Claim generally will recognize gain or loss for federal income tax purposes. The
18 timing and amount of that gain or loss will depend upon a number of factors, including
19 whether the holder reports income as an accrual basis taxpayer or as a cash basis taxpayer,
20 whether the holder will receive multiple distributions pursuant to the Plan and whether the
21 Reorganized Debtor's obligation to make payments will be treated as a new debt obligation
22 for federal income purposes.
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30 In addition, the character of any gain or loss recognized by a creditor as long-term or
31 short-term capital gain or loss or as ordinary income or loss will be determined by a number
32 of factors, including the tax status of the creditor, whether the obligation from which the
33 creditor's claim arose constitutes a capital asset in the hands of the creditor, whether the
34 obligation from which the claim arose has been held for more than one year, the allocation
35 of any distributions received between principal and unpaid accrued interest, whether and to
36 what extent the creditor has previously claimed a bad debt deduction, and the extent (if any)
37 to which interest may be imputed where multiple distributions are received.
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XIII. CONCLUSION AND RECOMMENDATION

PLHI believes that confirmation and implementation of the Plan is preferable to any alternative because it will provide the greatest recoveries to its creditors. For this reason, PLHI urges all creditors entitled to vote on the Plan to accept the Plan.

DATED May 24, 2010.

PERKINS COIE LLP

By: /s/ Jeanette L. Thomas

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Attorneys for Debtor
Pacific Lifestyle Homes, Inc.

EXHIBIT A
LIST OF AFFILIATES

Antelope LLC	Pacific Lifestyle Investments LLC
Bremerton LLC	Pacific Lifestyle Mortgage LLC (49% owned by KLW Mortgage Company)
Clackamas Hickory, LLC	Quartzite, LLC
Clark Investment Property LLC (50% owned by Rhode Island Investments LLC)	Ridgefield East Investments LLC
Claystone LLC	Ridgefield Estates LLC
Hampton LLC	Ridgefield South Investments LLC (50% owned by Maryland Investments LLC)
Jefferson LLC	Ridgefield Walker Investment Property LLC
Juneau Investments LLC	Rhode Island Investments LLC
Kelly Creek Trunkline, LLC	Sandpines Properties LLC
Lansford LLC	Schaad Newberg Property LLC (50% owned by Vermont Investments LLC)
Logan Lewis Investments LLC	Sherwood LLC
Lynn Management LLC	Stafford LLC
Maine Investments LLC	Timberman LLC
Maryland Investments LLC	Vermont Investments LLC
Massachusetts Investments LLC	Virginia Investments LLC
Missouri Investments LLC	Wann Investments LLC
Monroe LLC	Washougal Investment Property, LLC
Moreland LLC	Weston LLC
New Hampshire Investments LLC	WHCO LLC (50% owned by Antelope LLC)
Newport LLC	K.L.W. Investment Corp.
Nivek, LLC	KLW Mortgage Company

EXHIBIT B
WCB TAKEDOWN AGREEMENT

[to be provided later]

EXHIBIT C
FINANCIAL PROJECTIONS

See attached.

EXHIBIT C TO DISCLOSURE STATEMENT

69423-0001/LEGAL17411293.3

Perkins Coie LLP
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Fax: 503.727.2222

Pacific Lifestyle Homes, Inc.
Consolidated Summary Sheet

<u>Inventory:</u>	Projected as of 7/31/2010	Projected as of 12/31/2010	Projected as of 12/31/2011	Projected as of 12/31/2012	Projected as of 12/31/2013	Projected as of 12/31/2014	Projected Total
# of Units - year end balances							
Taverner Ridge - PLHI Owned	3	3	2	1	1	-	-
Chandler's Estate's I - PLHI Owned	12	12	9	5	2	-	-
Reserve @ SSR (available to Option)	22	17	4	-	-	-	-
Chandler's Estate's II (available to option)	24	18	6	-	-	-	-
Songbird	12	5	-	-	-	-	-
New Lots ⁽¹⁾	-	74	82	90	102	122	122
Total Lots	73	129	103	96	105	122	122
Closings - for the year ending		66	74	80	84	91	395

(1) New lot purchases are required to maintain inventory levels so the company can remain a going concern (estimated to be slightly over a one-year supply). Purchases are subject to cash availability. Inventory levels are significantly lower than in prior years. If sales absorption exceeds expectations additional lot purchases may be required.

(2) It is assumed sales absorption, prices and costs will remain relatively static during forecast period.

<u>Balance Sheet:</u> ⁽³⁾	GL GAAP Balances @ 12/31/2009	Balances @ After Confirmation	2010	2011	2012	2013	2014
Assets:							
Cash - Restricted DIP Funds ⁽⁴⁾	5,765,395	885,085	1,002,968	-	-	-	-
Cash - Unrestricted ⁽⁵⁾	3,360,223	1,742,056	2,341,200	1,458,837	2,544,776	2,507,949	2,563,575
Accounts Receivable	261,547	76,734	76,734	76,734	76,734	76,734	76,734
Prepaid Expenses	37,248	37,248	37,248	37,248	37,248	37,248	37,248
Inventory - Work in Process ⁽⁴⁾	8,245,256	3,484,814	3,701,114	3,722,353	2,990,106	3,460,626	3,630,387
Land - Finished Lots ⁽⁴⁾	16,712,720	4,184,000	5,465,000	5,740,000	6,300,000	7,140,000	8,540,000
Investment in Risk Retention Group (Insurance Reserve) ⁽⁶⁾	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Fixed Assets @ Cost ⁽⁷⁾	760,700	760,700	760,700	760,700	760,700	760,700	760,700
Less: Accumulated Depreciation	(659,778)	(720,516)	(760,700)	(760,700)	(760,700)	(760,700)	(760,700)
Total Assets **	34,783,312	10,750,121	12,924,264	11,335,172	12,248,864	13,522,557	15,147,944
Liabilities & Equity:							
Post-petition Accounts Payable - Trades	708,505	910,201	1,034,476	1,251,822	1,257,543	1,257,543	1,257,544
Pre-petition Accounts Payable - Trades	3,191,526	-	-	-	-	-	-
Accrued Payroll	61,306	87,247	87,247	87,247	87,247	87,247	87,247
Accrued Warranty Costs	145,800	174,000	174,000	174,000	174,000	174,000	174,000
Buyer Earnest Money Payable	40,700	34,275	34,275	34,275	34,275	34,275	34,275
Payable to Subcontractors & Vendors < \$8k ⁽⁸⁾	-	249,718	124,859	-	-	-	-
Deferred Income - On Your Lot	-	-	-	169,200	310,200	310,200	310,200
Payable to Subcontractors & Vendors > \$8k ⁽⁹⁾	-	704,172	704,172	633,755	528,129	387,294	211,252
Loan Payable - Kevin Wann ⁽¹⁰⁾	1,700,000	-	-	-	-	-	-
Prepetition Payable to BofA ⁽¹¹⁾	-	340,000	340,000	306,000	255,000	187,000	102,000
Due to Officer ⁽¹²⁾	695,758	-	-	-	-	-	-
Debt Balances ⁽¹³⁾	34,330,598	2,929,338	2,335,899	-	-	-	-
Other Liabilities	548,750	253,750	253,750	253,750	253,750	253,750	253,750
Total Liabilities	41,422,943	5,682,700	5,088,678	2,910,049	2,900,144	2,691,309	2,430,268
Beginning Equity	(2,640,658)	(6,639,631)	(6,639,631)	(6,639,631)	(6,639,631)	(6,639,631)	(6,639,631)
Capital Contribution - Kevin Wann ⁽⁵⁾	-	2,650,000	4,950,000	4,950,000	4,950,000	4,950,000	4,950,000
Retained Earnings - Adjustments @ Confirmation ⁽¹⁴⁾	-	9,057,051	9,057,051	9,057,051	9,057,051	9,057,051	9,057,051
Retained Earnings - Plan Period	(3,998,973)	-	468,166	1,057,703	1,981,300	3,463,828	5,350,256
Total Equity	(6,639,631)	5,067,420	7,835,586	8,425,123	9,348,720	10,831,248	12,717,676
^{rounding}	-	-	^f	-	-	-	^f
Total Liabilities & Equity	34,783,312	10,750,121	12,924,264	11,335,172	12,248,864	13,522,557	15,147,944

**Pacific Lifestyle Homes, Inc.
Consolidated Summary Sheet**

(3) *The Balance Sheet is preliminary and therefore does not include final adjustments for impairment losses, gain on debt forgiveness, and other adjustments that may be required.*

The 2009 Balance Sheet is currently being reviewed by outside CPAs.

(4) *Assumes DIP segregated cash and vacant lots are returned to WCB and Key Bank. Assumes WCB and PLHI will enter into a takedown agreement, and PLHI will fund construction costs.*

Assumes PLH will complete Songbird using BoFA's DIP funds to fund construction costs.

(5) *Unrestricted cash will include:*

(i) *\$1.7 million from 2007 tax return (Wann DIP Loan) converted to equity, as provided in the plan.*

(ii) *\$950k from 2008 federal and Oregon tax returns contributed by K Wann as equity.*

(iii) *\$2.3 million 2009 federal tax return paid in as equity*

(iv) *\$750k from 2008 taxes paid to PLHI by K Wann (Settlement Payment).*

(6) *Long term investment in insurance retention group.*

(7) *Book value of office furniture, equipment & fixtures.*

(8) *Assumes pre-petition trade payables with balances up to \$8,000 will be paid at 40%, with 50% of this amount payable at Confirmation and the remaining 50% balance paid 6 months following Confirmation. The amount includes an estimate for additional creditors that may opt in to this class. The total estimated payment is \$249,718, with \$124,859 paid at Confirmation and the other \$124,859 paid 6 months after Confirmation.*

(9) *Assumes pre-petition trade payables with balances more than \$8,000 (that do not opt in to smaller Class) will be paid at 10% over 5 years. The total estimated payment for this Class is \$704,172, and the payment schedule is as follows:*

(1) One year following Confirmation : \$70,417; (2) Two years following Confirmation: \$105,626; (3) Three years following Confirmation: \$140,834; (4) Four years following Confirmation: \$176,043; (5) Five years following Confirmation: \$211,252.

(10) *Assumes Kevin Wann DIP loan is converted to equity in PLHI.*

(11) *Unsecured bank debt consists of a \$340,000 payment to BoFA, paid over 5 years as follows:*

(1) One year following Confirmation : \$34,000; (2) Two years following Confirmation: \$51,000; (3) Three years following Confirmation: \$68,000; (4) Four years following Confirmation: \$85,000; (5) Five years following Confirmation: \$102,000.

(12) *Assets & Liabilities exclude net intercompany receivable/payables that have been written off as uncollectible. As of Confirmation PLH has a net payable to Kevin Wann in the amount of \$695k.*

(13) *BoFA has a secured debt balance of \$3,438,000, payable as follows: (1) release price for every closing in the amount of \$84,777; (2) balance paid from Segregated DIP funds; (3) and if remaining balance, paid from PLH corporate funds.*

Pre-confirmation pay downs are expected to total \$508,662, leaving a balance of \$2,929,338 at confirmation.

(14) *Preliminary adjustments to equity based on writing assets and debt down to current Plan proposed by PLHI. These amounts may change as the books are finalized.*

Pacific Lifestyle Homes, Inc.
Consolidated Summary Sheet

<u>Income Statement:</u>	Projected 5 Mos Ending 12/31/2010	Projected Period Ending 12/31/2011	Projected Period Ending 12/31/2012	Projected Period Ending 12/31/2013	Projected Period Ending 12/31/2014	Projected Totals
Revenue:						
Gross Sales from Homebuilding (15)	7,393,430	18,859,787	20,761,885	23,360,000	25,600,000	95,975,102
On Your Lot Revenue (16)	2,100,000	2,800,000	2,800,000	2,800,000	2,800,000	13,300,000
Total Revenue	9,493,430	21,659,787	23,561,885	26,160,000	28,400,000	109,275,102
Less: Cost of Sales						
Closing Costs (17)	(243,550)	(604,245)	(628,802)	(700,800)	(768,000)	(2,945,397)
Construction Costs (18)	(4,140,837)	(10,369,512)	(11,352,368)	(12,643,600)	(13,856,000)	(52,362,317)
Lot Cost (19)	(1,584,439)	(3,964,885)	(4,508,000)	(5,110,000)	(5,600,000)	(20,767,324)
On Your Lot Cost (16)	(1,677,000)	(2,236,000)	(2,236,000)	(2,236,000)	(2,236,000)	(10,621,000)
Total Cost of Sales	(7,645,826)	(17,174,642)	(18,725,169)	(20,690,400)	(22,460,000)	(86,696,038)
Gross Profit - Homebuilding \$	1,424,604	3,921,144	4,272,716	4,905,600	5,376,000	19,900,064
Gross Profit - Homebuilding %	19.3%	20.8%	20.6%	21.0%	21.0%	20.7%
Gross Profit - On Your Lot \$	423,000	564,000	564,000	564,000	564,000	2,679,000
Gross Profit - On Your Lot %	20.1%	20.1%	20.1%	20.1%	20.1%	20.1%
Total Gross Profit \$	1,847,604	4,485,144	4,836,716	5,469,600	5,940,000	22,579,064
Total Gross Profit %	19.5%	20.7%	20.5%	20.9%	20.9%	20.7%
Indirect Costs (20)	(219,950)	(534,480)	(541,980)	(550,980)	(561,480)	(2,408,870)
Finance Costs	(58,887)	(37,540)	-	-	-	(96,427)
Sales & Marketing (21)	(740,341)	(1,748,707)	(1,796,259)	(1,861,212)	(1,917,212)	(8,063,731)
General & Admin. Expenses (22)	(677,700)	(1,626,480)	(1,626,480)	(1,626,480)	(1,626,480)	(7,183,620)
	(1,696,877)	(3,947,207)	(3,964,719)	(4,038,672)	(4,105,172)	(17,752,647)
Other Income <Expense>:						
Professional Fees	(100,000)	-	-	-	-	(100,000)
Depreciation Expense	(30,061)	-	-	-	-	(30,061)
Management Fee Income (23)	21,500	51,600	51,600	51,600	51,600	227,900
Post Confirmation 10% Builder Overhead - KeyBank	426,000					426,000
Pretax Income - Corporate	468,166	589,538	923,596	1,482,528	1,886,428	5,350,256
	4.9%	2.7%	3.9%	5.7%	6.6%	4.9%

(15) Sales absorptions and pricing is assumed to remain level each year.

(16) On Your Lot (OYL) program financed by PLH and/or buyer. Buyer chooses lot, either already owned or newly purchased, PLH constructs home. Assumptions for each OYL includes \$350k sales price, \$279.5k cost (including lot), and a \$70.5k gross margin, or 20%.

(17) Closing costs include title, escrow & excise taxes (WA only).

(18) It is assumed construction costs will remain level each year, with no significant increases in trade costs.

(19) Lot Cost is recognized as each home is closed. Release prices will be paid to the banks with each closing, as appropriate.

(20) Costs include production staff, warranty, supplies and tools.

(21) Costs include marketing & advertising, inside commissions, co-broker (outside) commissions, salaries for sales team, model home expense.

(22) Costs include administrative staff payroll, office rent & maintenance, insurance.

(23) Amount paid to PLH to manage rental properties.

Pacific Lifestyle Homes, Inc.
Consolidated Summary Sheet

Cash Flow:

	Projected 5 Mos. Ending 12/31/2010	Projected Period Ending 12/31/2011	Projected Period Ending 12/31/2012	Projected Period Ending 12/31/2013	Projected Period Ending 12/31/2014	Projected Totals
Net Income	468,166	589,538	923,596	1,482,528	1,886,428	5,350,256
Adjustments to Net Income:						
Sources of Cash:						
Cash (Contributions) - Kevin Wann (note 5 above)	4,950,000	-	-	-	-	4,950,000
New Cash - Kevin Wann Settlement Payment (note 5 above)	750,000	-	-	-	-	750,000
Sale of PLH Unencumbered Lots (24)	-	193,000	244,000	153,000	142,000	732,000
Add back GAAP Construction Costs from P&L	4,140,837	10,369,512	11,352,368	12,643,600	13,856,000	52,362,317
Add back GAAP Lot Cost from P&L	1,584,439	3,964,885	4,508,000	5,110,000	5,600,000	20,767,324
Add back GAAP On Your Lot Cost from P&L (note 16 above)	1,677,000	2,236,000	2,236,000	2,236,000	2,236,000	10,621,000
Add On Your Lot Cash Flow (PLH Share of Buyer Financed Draws) (note 16)	14,100	141,000	141,000	141,000	141,000	578,100
Depreciation Expense	30,061	-	-	-	-	30,061
Total Sources	13,146,437	16,904,397	18,481,368	20,283,600	21,975,000	90,790,802
Uses of Cash:						
Construction Costs	(4,800,336)	(11,245,136)	(10,717,400)	(13,267,120)	(14,167,760)	(54,197,752)
Lot Release Prices	(1,164,439)	(1,724,885)	(518,000)	-	-	(3,407,324)
Cash Purchase & Development - Lots	(5,600,000)	(2,800,000)	(4,550,000)	(5,950,000)	(7,000,000)	(25,900,000)
On Your Lot Costs - PLH Funded	(774,400)	(1,677,000)	(1,677,000)	(1,677,000)	(1,677,000)	(7,482,400)
GAAP Revenue from Buyer Financed On Your Lot Sales	(350,000)	(700,000)	(700,000)	(700,000)	(700,000)	(3,150,000)
Return of Pre-petition Buyer Earnest Money Deposits	(6,425)	-	-	-	-	(6,425)
Pre-Petition Warranty Claims	(15,000)	-	-	-	-	(15,000)
Payments to Unsecured Creditor - BofA	-	(34,000)	(51,000)	(68,000)	(85,000)	(238,000)
Payments to Subs & Vendors < \$8k (including those that opt in)	(124,859)	(124,859)	-	-	-	(249,718)
Payments to Subs & Vendors > \$8k	-	(70,417)	(105,626)	(140,834)	(176,043)	(492,920)
Payment of Accrued Expenses	(280,000)	-	-	-	-	(280,000)
Total Uses	(13,115,459)	(18,376,297)	(18,319,025)	(21,802,954)	(23,805,803)	(95,419,539)
Cash Flow	499,144	(882,363)	1,085,939	(36,826)	55,625	721,519
Beginning Cash Balance (Corporate, excludes DIP Funds)	1,842,056	2,341,200	1,458,837	2,544,776	2,507,949	1,842,056
Activity for the Period	499,144	(882,363)	1,085,939	(36,826)	55,625	721,519
Ending Cash Balance (Corporate, excludes DIP Funds)	2,341,200	1,458,837	2,544,776	2,507,949	2,563,575	2,563,575

(24) Assumes at confirmation that PLH will own 15 unencumbered lots, consisting of 3 Taverner lots and 12 Chandler Estates lots.

EXHIBIT D
LIQUIDATION ANALYSIS

See attached.

EXHIBIT D TO DISCLOSURE STATEMENT

69423-0001/LEGAL17411293.3

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Phone: 503.727.2000
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Pacific Lifestyle Homes, Inc.
Liquidation Analysis
Projected to July 31, 2010

Assets:

	Liquidation Value
Cash - Restricted DIP Funds (BofA, Songbird)	885,085
Cash - B of A Restricted Reserve Funds (10% of outstanding costs)	197,763
Cash - Key Bank Restricted Reserve Funds (10% of outstanding costs)	181,243
Lots - West Coast Bank 10% Restricted Reserve (7 Chandler Estate's Lots at \$30,600 ea.)	214,200
Cash - Unrestricted Corporate Cash	1,463,050
Cash - Restricted Post Petition Loan from Kevin Wann	1,700,000
Accounts Receivable (liquidation value is 60% of reorganization value)	46,040
Inventory - Work in Process (Songbird-BofA; Reserve at Sunset Ridge , Chandler's Estates-WCB)	911,774
Land - Finished Lots (12 Songbird lots at \$40,385 liquidation value)	484,620
Inventory - unencumbered lots (3 taverner lots at \$39,545; 5 Chandler Estates lots at \$30,600/lot, less 15% liquidation costs)	230,890
Investment in Risk Retention Group (Insurance Reserve)	50,000
Fixed Assets - net of accumulated depreciation.	25,000
Avoidance Actions (Settlement Payment from K & N Wann \$500k liquidation payment; \$750k reorganization payment)	500,000
Total Assets	<u>6,889,666</u>

Liabilities:

Accounts Payable - Trades	910,201
Accrued Payroll	87,247
Accrued Warranty Costs (warranty would cost significantly more under a liquidation as the homes would need to be serviced by an outside company, and therefore would not have the efficiencies and economies of scale that PLHI's warranty department has.)	360,000
Accrued Excise Taxes (prepetition amount due to State of Washington)	93,000
Accrued Real Estate Taxes (includes prepetition and post petition amounts due)	155,000
Buyer Earnest Money Payable	6,425
Payable to Banks -Cash - DIP Funds	885,085
Payable to Banks - WIP	911,774
Payable to Banks -Lots	484,620
Cash - B of A Restricted Reserve Funds (10%) - back to bank if Chapter 7	197,763
Cash - Key Bank Restricted Reserve Funds (10%) - back to bank if Chapter 7	181,243
Lots - West Coast Bank 10% Restricted Reserve (Lots) - to bank if Chapter 7	214,200
Payable - Kevin Wann Loan	1,700,000
Chapter 11 Professional Fees	100,000
Chapter 7 Liquidation Administration Costs	184,241
Chapter 7 Professional Fees	100,000
Total Liabilities	<u>6,570,799</u>
Balance	<u>318,866</u>

**Pacific Lifestyle Homes
Plan of Reorganization
Unsecured Claims Recovery Analysis**

	Liquidation	Reorganization
Payments to Unsecured Creditors		
Subs & Vendors < \$8K	\$21,150	\$249,718
Subs & Vendors > \$8K	82,739	704,171
West Coast Bank (1)	38,775	0
Key Bank (1)	78,724	0
Bank of America	97,477	340,000
Total	\$318,866	\$1,293,889
Unsecured Claims		
Subs & Vendors < \$8K	\$1,800,040	\$1,800,040
Subs & Vendors > \$8K	7,041,717	7,041,717
West Coast Bank (1)	3,300,000	0
Key Bank (1)	6,700,000	0
Bank of America	8,296,000	3,400,000
Total	\$27,137,757	\$12,241,757
Recovery on Unsecured Claims		
Subs & Vendors < \$8K	\$0.01	\$0.40
Subs & Vendors > \$8K	\$0.01	\$0.10
West Coast Bank (1)	\$0.01	-
Key Bank (1)	\$0.01	-
Bank of America	\$0.01	\$0.10

(1) Deficiencies were waived as part of the settlement agreements with West Coast Bank and KeyBank.